Euro wrap-up

Overview

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- Bunds were little changed as euro area consumer confidence held steady at the highest level so far this year and German producer inflation data illustrated an ongoing absence of pipeline goods price pressures.
- Gilts followed USTs slightly higher, while a UK manufacturing survey signalled the steepest pace of decline in output since August 2020.
- Friday will bring the flash November PMIs as well as UK consumer confidence, retail sales and public finance numbers.

Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.020	+0.007
OBL 2.2 10/30	2.298	+0.006
DBR 2.6 08/35	2.718	+0.008
UKT 3¾ 03/27	3.781	-0.011
UKT 4⅜ 03/30	3.987	-0.011
UKT 4½ 03/35	4.585	-0.016

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

Euro area

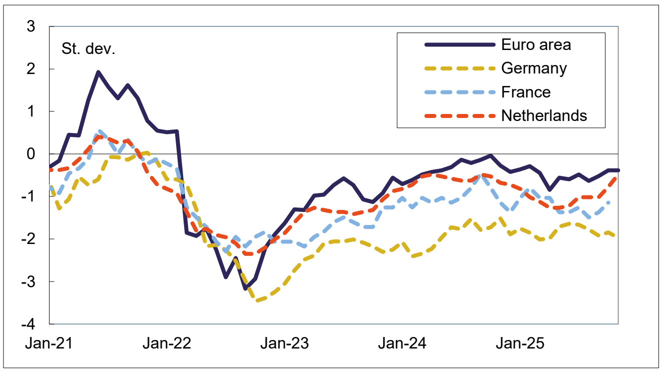
Euro area consumer confidence in October steady at highest level so far this year

Consistent with softer employment growth in Q3, household consumption growth in the euro area also likely slowed a touch in Q3 for a second successive quarter as heightened uncertainties supported an ongoing preference to save. But an improvement in consumer confidence in October to a nine-month high raised cautious optimism that consumer spending will pick up in the final quarter of the year. And while today's flash indicator for November disappointed expectations, it nevertheless held steady at -14.2, to leave it averaging some 0.8pt above the Q3 average. We suspect the sideways move might reflect some payback in France for the improvement in October, when sentiment jumped to a six-month high. In contrast, however, the CBS survey – also published today – suggested that Dutch households were the most upbeat so far this year, with purchase intentions the strongest since the start of 2024. Strikingly too, Belgian household confidence also climbed to the highest for more than four years on improved perceptions of the outlook for the economy and incomes and reduced fears of unemployment. Taken together with separate survey signals of a stabilisation in labour demand and normalizing price setting, we expect euro area private consumption to pick up slightly into year end and further in Q126.

German goods pipeline price pressures remain subdued, amid soft demand & intense competition

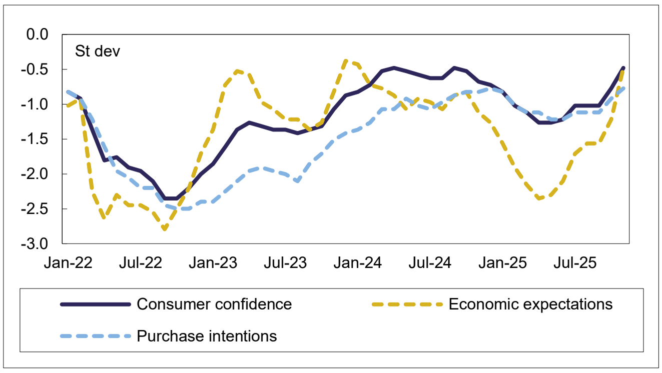
While services inflation in the euro area has gradually moderated from its peak over two years ago, at close to 3½%Y/Y it remains some 1.5ppts above the average in the two decades before the energy crisis in 2022. In contrast, the decline in non-energy industrial goods inflation from the peak has been far more pronounced, reflecting subdued global goods demand, ample supply of cheap imported goods and the impact of euro appreciation. Yesterday's consumer price data illustrated the ongoing absence of core goods inflation in the euro area in October (0.6%Y/Y), bang in line with the average of the past twelve months. And while German consumer core goods inflation has picked up slightly to around double the euro area average, recent momentum has slipped back (-0.1%3M/3M annualised). And today's German producer price data suggest an ongoing absence of meaningful domestic pipeline goods price pressures. Industrial producer prices rose in October by just 0.1%M/M, marking the first increase in four months. That rise was due to a pickup in energy prices, which increased the most in eleven months (0.4%M/M). But this still left annual producer price inflation at -1.8%Y/Y, with energy prices down a chunkier 7.5%Y/Y. When excluding energy, price pressures also remained limited. Indeed, intermediate prices rose for just the first month in six (0.1%M/M) in October. Although capital goods prices rose for a fourth successive month, the annual rate held steady at 1.9%Y/Y. And while the drop in producer final consumer goods prices (-0.6%M/M) was principally driven by the food component, this still pushed consumer goods PPI inflation down 0.8ppt to 2.2%Y/Y, a twelve-month low, with consumer durable goods PPI inflation down to 1.7%Y/Y.

Euro area: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Netherlands: Consumer confidence components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

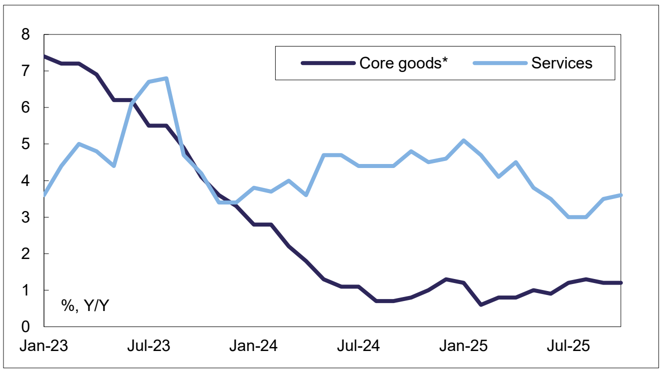
Euro area construction activity fails to grow in Q3 for a second successive quarter

While euro area GDP growth picked up slightly in Q3, today's construction activity data suggested that the sector failed to boost economic output for a second successive quarter. Admittedly, construction output was merely flat in Q3 after the Spanish-led contraction in Q2 (-0.5%Q/Q). But today's data also showed weakening momentum towards the end of the third quarter, with total output declining for a second successive month in September, by 0.5%M/M. The fall in September was broad-based across the larger member states, with just Italy bucking the trend (0.9%M/M). But this followed a sizeable decline in August to leave Italian construction output down more than ½%Q/Q in Q3, a similar pace of contraction to Germany. The weakness in the region was led by building work in September, which fell for a fourth month out of five and by 1.3%M/M to reach the lowest level since February 2021, with German building work the lowest since the start of 2017. But while specialist work also fell for a second successive month, this was up 0.7%Q/Q in Q3, reversing the drop in Q2. And despite rising for a third month in four in September, civil engineering in the euro area rose just 0.1%Q/Q in Q3. Surveys have been mixed about the performance in the sector at the start of Q4. The PMIs signalled a marked deterioration in October. But the Commission survey pointed to recovery albeit with ongoing challenges. Indeed, the respective index for activity in the three months to October rose to the highest in 2½ years, with a marked increase in the respective civil engineering index. Despite a pickup in building work there remains a lack of demand. And civil engineering is reportedly being held back by a shortage of skilled workers, particularly in Germany, which risks dampening the expected boost from the government's infrastructure plans.

The day ahead in the euro area

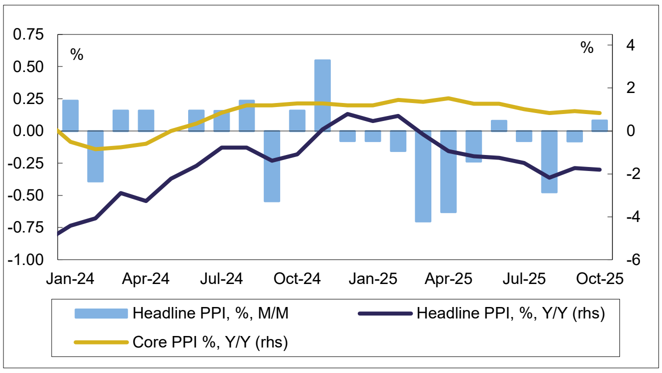
The data highlight at the end of the week will be the flash November PMIs. Encouragingly, October's survey was suggestive of a fifth consecutive monthly improvement in the top-line euro area composite output PMI, rising 1.2pts to a near-2½-year high of 52.5. While the accelerated pace continued to reflect a strong performance in the periphery, the pickup was also underpinned by stronger growth in German services. Admittedly, that signal contrasted with limited improvement in the October ifo survey current conditions indices, which flag risks about the sustainability of the pickup in the PMIs this month. Meanwhile, the French composite PMI signalled a deeper contraction. But given the recent poor track record of those PMI indices in assessing the strength of GDP growth in that member state, more weight should perhaps be attached to the more comprehensive INSEE business survey (also due tomorrow). Data aside, ECB President Lagarde and Bundesbank head Nagel will be among the more influential speakers at the Frankfurt European Banking Congress.

Germany: Services & core goods HICP inflation



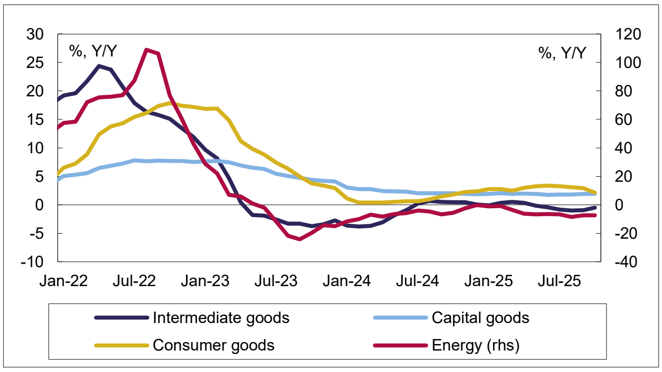
*Non-energy industrial goods.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Producer price inflation*



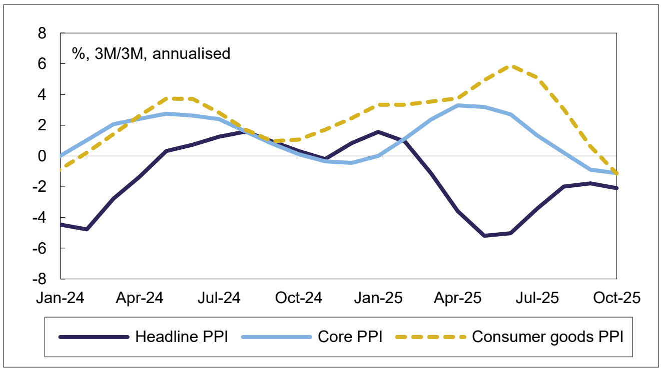
*Core PPI excludes energy.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Producer price inflation components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Producer price momentum*



*Core PPI excludes energy.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

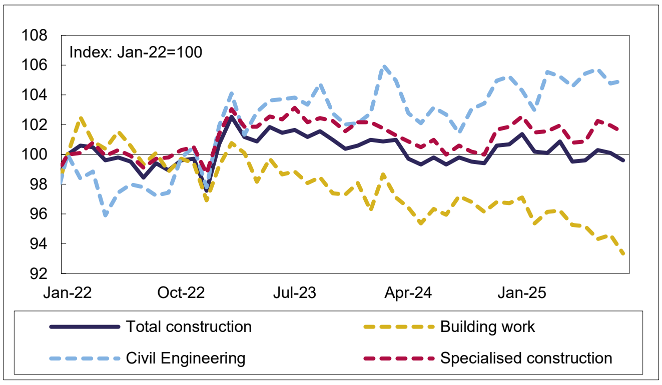
UK

The day ahead in the UK

Friday's dataflow will provide the last round of top-tier UK releases before attention turns firmly to next week's Budget announcements. Perhaps most notable among those will be the flash November PMIs, which will provide a gauge on economic momentum midway through Q4. The PMIs were encouragingly suggestive of a pickup in business activity at the start of the quarter, rebounding after a sharp deterioration in September which was affirmed by that month's GDP report. The services activity PMI partially recovered in October, rising 2½pts (52.3), while the manufacturing output index rose almost 6pts to signal a first expansion in 12 months (51.6). That recovery was surely flattered by the production restart at Jaguar Land Rover (JLR), whose shutdown and adverse impact on suppliers heavily influenced the downturn. While the phased-in nature of the return to production at JLR may offer some support to this month's survey too, the findings from the CBI industrial trends survey were not encouraging. This suggested that manufacturing output volumes in the three months to November declined at the steepest pace since August 2020, with less than 20% of respondents reporting an increase. And with more than 50% of respondents reporting 'below normal' order books, output was expected to contract at a similar pace in the coming month. From a monetary policy perspective, the price and employment PMIs will also warrant close attention, not least after the latter hinted towards some stabilisation in October.

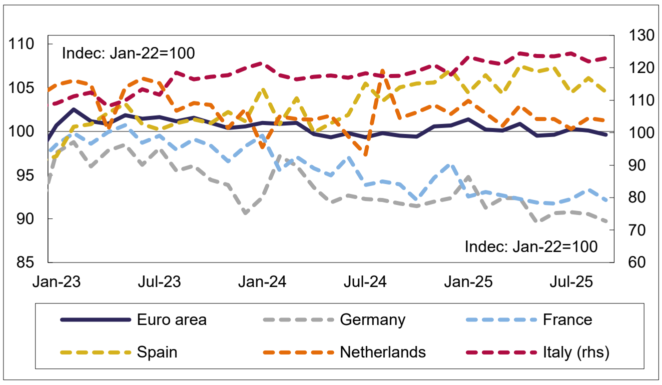
The effects of peak pre-Budget angst, of course, will pose a non-negligible downside risk to both business and consumer sentiment in November. Notably, the BRC's retail survey this month was suggestive of more cautious spending ahead of the Budget and Black Friday promotions. So, considering that retail sales growth has been also positive for four consecutive months, we see risks to October's official retail sales release to the downside. October's public finances release data, also due tomorrow, will provide an update on the government's current borrowing overshoot ahead of next week's Budget.

Euro area: Construction output



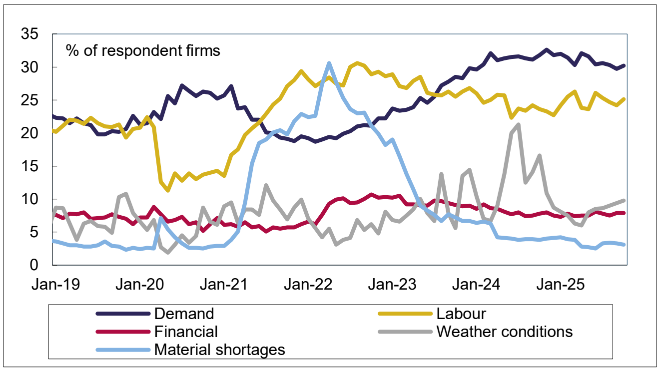
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Construction output



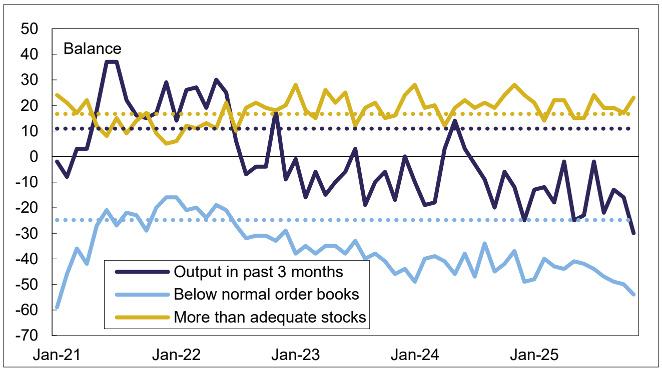
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Factors limiting construction output



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

UK: CBI industrial trends survey indices*



**Dotted lines are long-run average.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country		Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area		Preliminary Commission consumer confidence indicator	Nov	**-14.2**	-14.0	-14.2	-
		Construction output M/M% (Y/Y%)	Sep	**-0.5 (-0.3)**	-	-0.1 (0.1)	-0.2 (1.0)
Germany		PPI Y/Y%	Oct	**-1.8**	-1.7	-1.7	-
UK		CBI industrial trends survey – total orders (selling prices) balance %	Nov	**-37 (7)**	-	-38 (16)	-

Auctions

Country		Auction
France		sold €3.911bn of 2.4% 2028 bonds at an average yield of 2.34%
		sold €3.027bn of 2.7% 2031 bonds at an average yield of 2.76%
		sold €2.497bn of 1.5% 2031 bonds at an average yield of 2.78%
		sold €2.565bn of 3.5% 2033 bonds at an average yield of 3.19%
		sold €544mn of 0.1% 2036 inflation-linked bonds at an average yield of 1.57%
		sold €281mn of 1.8% 2040 inflation-linked bonds at an average yield of 1.78%
		sold €175mn of 0.1% 2053 inflation-linked bonds at an average yield of 2.06%
Spain		sold €1.45bn of 3% 2033 bonds at an average yield of 2.885%
		sold €2.25bn of 3.2% 2035 bonds at an average yield of 3.199%
		sold €1.22bn of 4% 2054 bonds at an average yield of 4.038%
UK		sold £300mn of 0.25% 2052 inflation-linked bonds at an average yield of 2.37%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area		09.00	Preliminary services (manufacturing) PMI	Nov	52.8 (50.1)	53.0 (50.0)
		09.00	Preliminary composite PMI	Nov	52.5	52.5
		10.00	Negotiated wages Y/Y%	Q3	2.45	3.98
Germany		08.30	Preliminary services (manufacturing) PMI	Nov	54.0 (49.8)	54.6 (49.6)
		08.30	Preliminary composite PMI	Nov	53.5	53.9
France		07.45	INSEE business (manufacturing) confidence indicator	Nov	97 (100)	97 (101)
		07.45	INSEE production outlook (own company) indicator	Nov	-10 (10)	-11 (18)
		08.15	Preliminary services (manufacturing) PMI	Nov	48.5 (49.0)	48.0 (48.8)
		08.15	Preliminary composite PMI	Nov	48.1	47.7
		-	Retail sales Y/Y%	Oct	-	-1.2
UK		00.01	GfK consumer confidence indicator	Nov	-18	-17
		07.00	Retail sales – incl. auto fuels M/M% (Y/Y%)	Oct	-0.2 (1.4)	0.5 (1.5)
		07.00	Retail sales – excl. auto fuels M/M% (Y/Y%)	Oct	-0.5 (2.5)	0.6 (2.3)
		07.00	Public sector net borrowing £bn	Oct	15.0	20.2
		09.30	Preliminary services (manufacturing) PMI	Nov	52.0 (49.2)	52.3 (49.7)
		09.30	Preliminary composite PMI	Nov	51.8	52.2

Auctions and events

Country		GMT	Event
Euro area		08.00	ECB President Lagarde gives keynote speech to the 35th Frankfurt European Banking Conference (EBC)
		13.00	ECB Governing Council member & Bundesbank President Nagel gives keynote speech to the 35th Frankfurt EBC
UK		15.40	BoE Chief Economist Pill on panel discussing the 'future of the world's leading currencies', Switzerland

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.