

Euro wrap-up

Overview

- Bunds made gains while the euro area flash PMIs for November signalled a pickup in economic growth momentum in Q4 but a softening labour market and moderating price pressures.
- Gilts made larger gains as the flash UK PMIs indicated a further weakening of underlying growth and a softening labour market, while the latest retail sales and consumer confidence figures also disappointed.
- The coming week will bring first indications of euro area inflation in November as well as the UK Government's Budget announcement.

Economic research team

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	1.997	-0.019
OBL 2.2 10/30	2.272	-0.020
DBR 2.6 08/35	2.692	-0.022
UKT 3% 03/27	3.758	-0.021
UKT 4% 03/30	3.952	-0.033
UKT 4½ 03/35	4.539	-0.044

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

Euro area

Flash PMIs remain consistent with a slight pickup in GDP growth in Q4

In her speech today to the Frankfurt European Banking Congress, ECB President Lagarde flagged the resilience of euro area domestic demand to this year's heightened uncertainty and US tariff shock. That resilience was on display again in today's flash November PMIs, which remained consistent with positive albeit still rather patchy expansion in Q4. While the headline euro area composite PMI edged down marginally, at 52.4 it was still almost 1½pts above the Q3 average and thus suggestive of a pickup in GDP growth from 0.2%Q/Q last quarter. As in previous months, the survey suggested that growth remains centred on the services sector for which the activity PMI edged to a 2½-year high of 53.1, broadly in line with the long-run average. In contrast, the manufacturing output index dropped 0.6pt to an eight-month low of 50.5 suggestive of little better than flat-lining production. Despite steady domestic demand, factory orders were down for a third successive month due to continued weakness in external demand to suggest that sustained recovery in manufacturing is still some way off. Among the member states, the German flash composite PMI (52.1) again pointed to a return to growth in Q4, albeit softening almost 2pts in November from the 2½-year high last month. But broadly consistent with today's improved INSEE business survey, the equivalent French index (49.9) rose more than 2pts to suggest stable output. And economic momentum remained strongest in the remainder of the euro area – presumably still led by Spain – where the composite PMI (54.4) was reportedly the firmest in more than 2½ years.

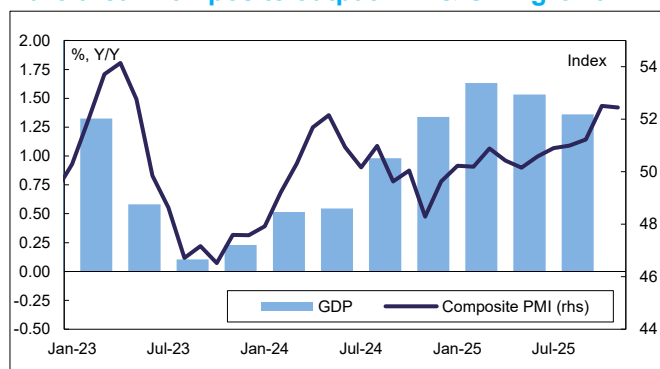
Labour market still losing momentum while output price pressures ease despite pickup in costs

In the labour market, meanwhile, the flash euro area PMIs suggested that aggregate employment growth has petered out in Q4, with a slight pickup in service-sector jobs offset by a further decline in manufacturing. At the same time, however, the survey also provided signals of a sharp and broad-based pickup in input costs in November. Nevertheless, the composite output price PMI suggested that selling-price inflation softened once again and by the most in a year. Factory prices were reportedly flat while services pressures, which remain the principal concern of Governing Council hawks, reassuringly eased to a 4½-year low. Moreover, today's data also confirmed a sharp slowdown in euro area negotiated wage growth in Q3 (by 2.1ppts to 1.9%Y/Y), as wage settlements in Germany turned down from a likely peak in Q2. Overall, therefore, with growth momentum picking up but the labour market subdued and output price pressures continuing to ease, today's survey results suggested no pressing need for the ECB to change rates in either direction next month.

The week ahead in the euro area

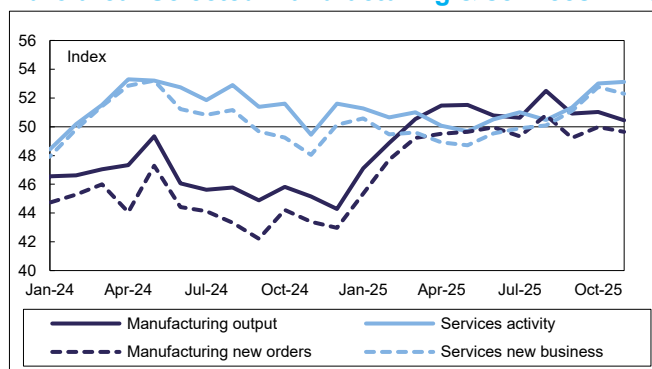
Ahead of the first figures for inflation in November at the end of the week, the data calendar first brings a steady flow of November business and consumer sentiment surveys to provide a cross-check to today's flash PMIs and yesterday's

Euro area: Composite output PMI & GDP growth



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

Euro area: Selected manufacturing & services PMIs



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

Commission consumer index. Most noteworthy will be the Commission's comprehensive business survey on Thursday, which will provide a further guide to GDP growth in the middle of Q4 in the euro area and member states. In addition to further insights into manufacturing and services, this survey will give an update on conditions in the retail and construction sectors and firms' investment plans. Meanwhile, the German ifo survey (Monday) will be closely watched for signs of improvement in current conditions to match the increased optimism in the outlook over the past six months. In addition, national consumer surveys are due from German and Italy (Thursday) and France (Tuesday). Meanwhile, updated estimates of Q3 GDP from Germany (Tuesday) and Italy (Friday) will bring for the first time a detailed expenditure breakdown. Destatis initially reported that, in Germany, exports weakened but investment in equipment picked up. But in Italy weak domestic demand was offset by a pickup in net trade. The week ahead will also bring the first wave of hard activity data for the start of Q4, with retail sales figures from Germany and Spain (Friday). And bank lending data for October (Thursday) will give insight into consumer and business borrowing at the start of Q4.

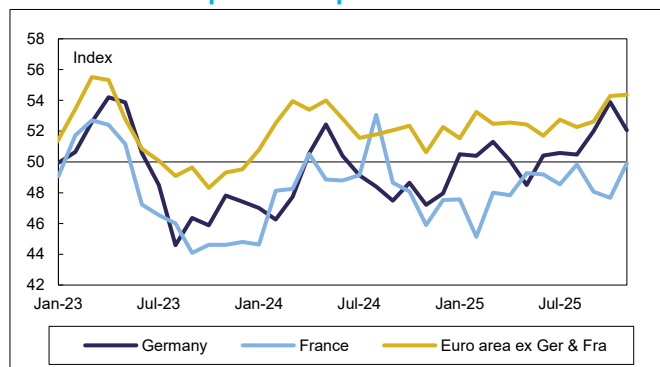
Turning to inflation, Friday will bring the flash November estimates from Germany, France, Italy and Spain. While headline inflation on the EU-harmonised measure edged slightly lower in Germany in October, we could well see a slight uptick this month due to unfavourable base effects in the volatile transport services and package holidays components. And energy inflation across the member states might add a slight upwards impulse due to a rise in petrol and heating oil prices this month. In any case, the ECB's latest consumer survey (also due Friday) is likely to show the household inflation expectations remain well contained. Against this backdrop, the account from the ECB's 30 October policy-setting meeting is likely to confirm that policymakers remain confident in its projection that shows inflation remaining close to the 2% target over the medium term. And we expect the account to reiterate Lagarde's post-meeting commentary that highlighted the alleviation of certain downside risks to growth thanks to geopolitical developments. Nevertheless, we expect some Governing Council members to continue to flag potential risks of an inflation undershoot.

UK

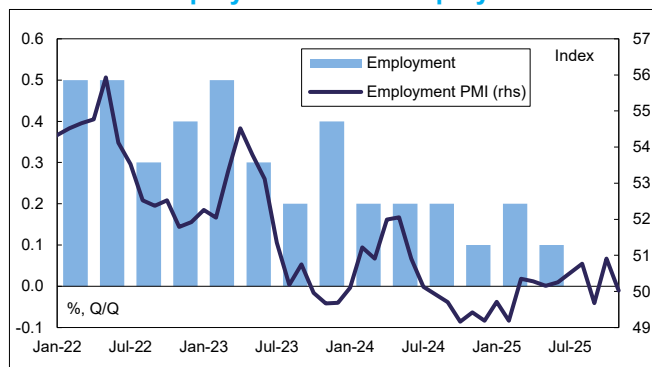
Retail sales fall sharply at the start of Q4 & consumer confidence softens again

Following four consecutive months of growth, it was no surprise that retail sales volumes fell at the start of Q4. But the drop of 1.1% M/M in October after upwardly revised growth of 0.7% M/M in September was sharper than expected and left sales down about ½% from the Q3 average. The weakness was relatively broad-based, including declines in stores for food (-1.1% M/M), clothing and footwear (-3.3% M/M) and auto fuel (-2.4% M/M). The exception was household goods stores (+2.1% M/M), which might suggest that delayed purchases ahead of Black Friday discounting was not the principal driver of

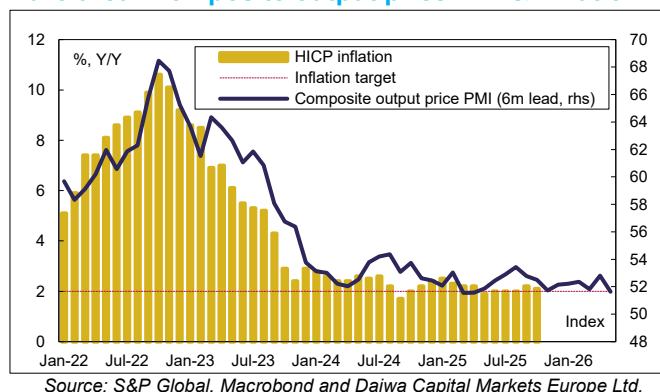
Euro area: Composite output PMIs



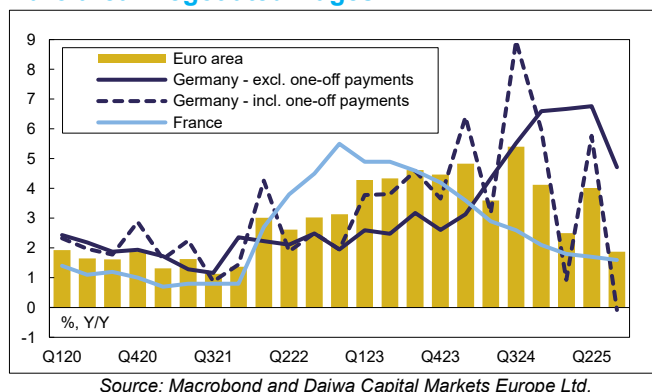
Euro area: Employment PMI & employment



Euro area: Composite output price PMI & inflation



Euro area: Negotiated wages



the pullback in spending. Indeed, we suspect that payback for surprising prior strength (as sales were up 0.8%Q/Q in Q3) and consumer caution ahead of next week's tax-raising Budget announcements played a more significant role. Indeed, after last month's GfK survey had suggested that household sentiment matched the firmest for the year, today's November survey results reported a modest deterioration. The headline consumer confidence index fell 2pts to -19, back in line with the average of the year to date and thus still firmly below the long-run average. And household purchase intentions fell back from last month's three-year high back close to the average of the past six months. We do expect to see a rebound in retail sales in November. But sales growth over the final quarter might well struggle to reach positive territory. And household consumption growth overall is likely to remain subdued in line with the rates of 0.1-0.2%Q/Q of the past two quarters.

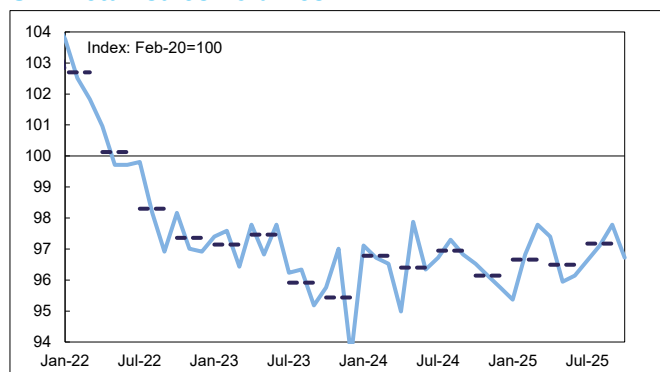
November's flash PMIs signal further loss of growth momentum in Q4

The signals from November's flash PMIs were also decisively less upbeat about underlying growth momentum midway through Q4. While October's survey had implied a rebound to its recently modest trend, the composite output PMI fell back more sharply than expected, to 50.5, consistent with largely stagnant conditions and trending 0.4pt below the Q3 level. That decline was led by the much larger services sector, for which the activity PMI fell 1.8pts to 50.5, a two-year low outside of April's post-'liberation day' scare. Measures of new orders fell to three-month lows, while firms also reported work backlogs shrinking at their fastest pace since August 2009 aside from the first pandemic lockdowns. On a brighter note, but perhaps inevitably, the PMIs also suggested that manufacturers were continuing to benefit from a phased restart at JLR. Albeit having slowed, the factory output PMI held just above the 50 threshold for an expansion for a second month – slightly outperforming services for a first month in fourteen – as domestic order books also grew for a first month since then. But while less downbeat than yesterday's CBI survey, the manufacturing PMIs were still consistent with stabilisation in the sector at best.

Indications of weakening labour market & evaporating price pressure strengthen rate-cut case

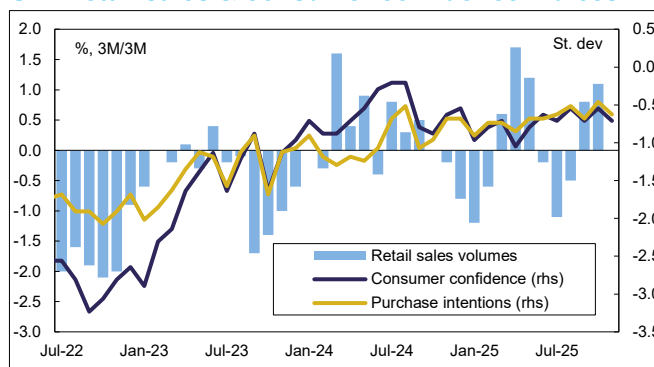
Perhaps even more than the softening of retail sales last month, the deterioration in November's flash PMIs was likely exacerbated by pre-Budget jitters. And with the final PMIs due to be published the week following its announcement, downward revisions would not be a surprise. Nevertheless, the slowdown in momentum signalled underscores the increasing sluggishness of underlying GDP growth which, from a monetary policy perspective, should resonate with those BoE policymakers more concerned about weak demand than inflation stickiness. They will also note the further weakness in business hiring intentions, which remains consistent with further loosening of the labour market. While its revision in October hinted at some stabilisation, the composite employment PMI fell 4pts in November to a five-month low (45.3) and fourteenth successive reading in contractionary territory. And seemingly reflecting the subdued demand environment, the output price PMIs indicated that firms may be struggling to pass along any further cost increases. Indeed, manufacturers signalled a first

UK: Retail sales volumes*



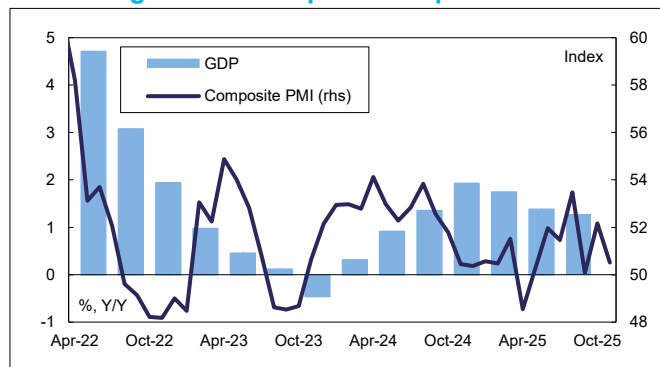
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales & consumer confidence indices



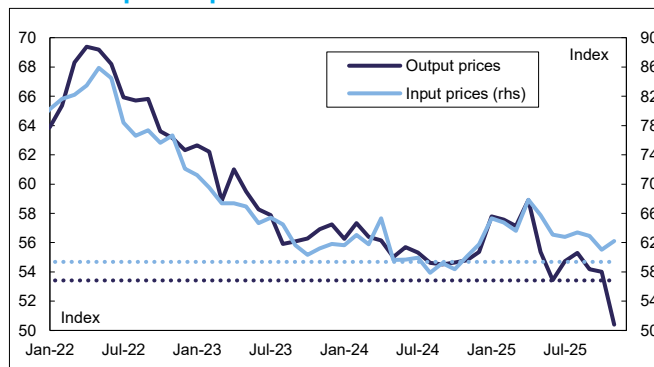
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GDP growth & composite output PMI*



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

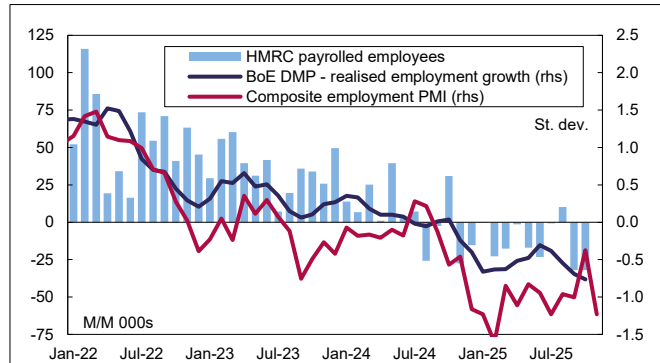
UK: Composite price PMIs*



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

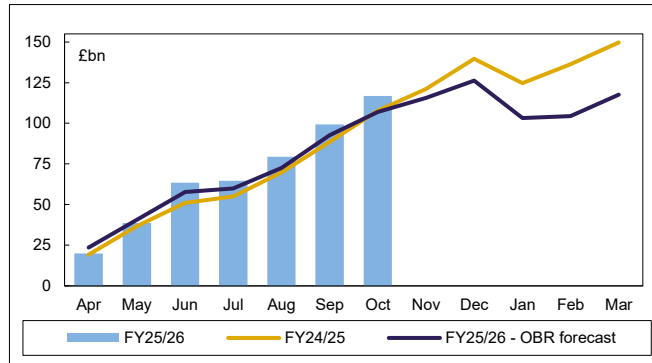
cut in output prices for more than two years, down 4.2pts to 48.8, and at their fastest rate since February 2016. And despite an uptick in input costs, the services output price PMI also fell to a near-five year low of 50.6, down 3.5pts on the month and more than 2pts below the long-run average. Signals of fading inflation persistence, a still-weak labour market and weak demand all support our view that the BoE will deliver a pre-Christmas rate cut at December's monetary policy meeting.

UK: Payrolled employees & employment indicators



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

UK: Public sector net borrowing



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

The week ahead in the UK

While the week ahead is bereft of top-tier UK economic data releases, Wednesday's fiscal announcements were always bound to provide the main event. On Wednesday, Chancellor Reeves will announce her long-awaited Autumn Budget to Parliament. And its substance should constitute a non-negligible tightening of fiscal policy as the Government seeks to keep policy on track to meet its fiscal rules – to achieve a current budget surplus (net borrowing less capex) and put the ratio of debt (public sector net financial liabilities) to GDP on a declining path by FY29/30 – and accordingly retain credibility with the gilt market.

Today's public finances' data underscored that the trajectory of policy is slightly off course from the fiscal rules, with public sector net borrowing running roughly £10bn above the OBR's projection for the fiscal year through October – albeit principally due to higher local government spending and weaker tax receipts, as well as a modest contribution from higher debt interest. But to get back on track, the Chancellor will also need to compensate for U-turns on cuts to pensioner winter fuel payments and disability benefits, cumulatively worth a little over £5bn in FY29/30. Reeves is also expected to find equal space for new spending commitments to stymie future Labour backbench mutinies, such as the touted scrapping of the two-child benefit cap. And the budget is likely to include new commitments to try to compensate for the higher cost of living too. A cut to VAT on electricity bills, floated by some media outlets, could help knock 0.2ppt off the headline CPI rate for a year from Q226, and would underscore that – contrary to her first Budget last year – the Chancellor will be actively seeking to suppress inflation rather than stoke it this time around. But the overriding imperative for fiscal tightening will stem from a long-overdue downgrade of the OBR's assumption for medium-term productivity growth, from 1¼ per annum at present to perhaps slightly less than 1%. Given the implications for the fiscal watchdog's GDP growth assumptions, we expect that could knock off as much as £15bn of the Chancellor's 'headroom' or approximately half of the £30bn (roughly 1% of GDP) belt-tightening we expect to be implemented.

As with last year, most of the burden will be addressed by raising taxes. Indeed, while the Chancellor might announce that departmental spending will be kept flat in real terms in FY29/30 to save some £5bn, more substantive spending cuts would likely be politically undeliverable. And seeing as public investment has no direct bearing on the government's budget rule, that funding should remain ringfenced at around 2½% of GDP per year. Moreover, we expect the DMO's remit for gilt issuance will be only modestly increased from £299.1bn in the current fiscal year and maintaining a bias towards short- and medium-dated issuance as the superlong end remains under strain. But bridging that gap without raising one of the three 'big' revenue raisers (income tax, NICs and VAT), which would imply breaching manifesto pledges, will prove challenging. Having earlier prepared the way for income tax rises, Chancellor Reeves ultimately reneged on those suggestions in response to the OBR's decision to factor a decline in global bond yields last month and firmer wage growth into its updated projection. In line with the consensus, however, we still expect income tax thresholds to be frozen through to the end of the Parliament, potentially saving as much as £10bn. The remaining balance (~£20bn) will need to be found through a selection of smaller tax rises. That invariably has drawn speculation about changes to council tax and other property taxes affecting the most valuable homes. Tighter rules governing various salary sacrifice schemes have also been primed as another likely source of revenue-raising, while targeted new taxes on gambling and electric vehicles are also likely. Changes to the detailed arrangements for inheritance and capital gains tax as well as ISA entitlements could also be on the menu. And we cannot rule out other measures, including a windfall tax raid on banks, within the wider package. But at the very least, the sum of those measures will also look to increase the Chancellor's historically thin headroom to at least £15bn, from £9.9bn in the last Budget, to reduce the chances of another damaging significant fiscal tightening next year.

Daiwa economic forecast

		2025			2026			2025	2026	2027
		Q2	Q3	Q4	Q1	Q2	Q3			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.1	0.2	0.3	0.3	0.3	0.3	1.4	1.1	1.3
UK		0.3	0.1	0.2	0.3	0.4	0.4	1.4	1.2	1.5
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.0	2.1	2.2	1.7	1.8	1.6	2.2	1.7	1.9
Core HICP		2.4	2.3	2.5	2.3	1.8	1.6	2.4	1.8	1.8
UK										
Headline CPI		3.5	3.8	3.6	3.2	2.5	2.4	3.4	2.6	2.0
Core CPI		3.7	3.6	3.5	3.3	2.6	2.4	3.6	2.7	1.9
Monetary policy, %										
ECB										
Deposit Rate		2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Refi Rate		2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
BoE										
Bank Rate		4.25	4.00	3.75	3.50	3.25	3.25	3.75	3.25	3.25

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

European calendars

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area	 Preliminary services (manufacturing) PMI	Nov	53.1 (49.7)	52.8 (50.0)	53.0 (50.0)	-
	 Preliminary composite PMI	Nov	52.4	52.5	52.5	-
	 Negotiated wages Y/Y%	Q3	1.87	2.45	3.98	4.01
Germany	 Preliminary services (manufacturing) PMI	Nov	52.7 (48.4)	54.0 (49.8)	54.6 (49.6)	-
	 Preliminary composite PMI	Nov	52.1	53.5	53.9	-
France	 Preliminary services (manufacturing) PMI	Nov	50.8 (47.8)	48.5 (49.0)	48.0 (48.8)	-
	 Preliminary composite PMI	Nov	49.9	48.1	47.7	-
	 INSEE business (manufacturing) confidence indicator	Nov	98 (98)	97 (100)	97 (101)	-
	 INSEE production outlook (own company) indicator	Nov	-10 (14)	-10 (10)	-11 (18)	- (19)
	 Retail sales Y/Y%	Oct	-0.7	-	-1.2	-
UK	 Preliminary services (manufacturing) PMI	Nov	50.5 (50.2)	52.0 (49.3)	52.3 (49.7)	-
	 Preliminary composite PMI	Nov	50.5	51.8	52.2	-
	 Retail sales – incl. auto fuels M/M% (Y/Y%)	Oct	-1.1 (0.2)	-0.2 (1.4)	0.5 (1.5)	0.7 (1.0)
	 Retail sales – excl. auto fuels M/M% (Y/Y%)	Oct	-1.0 (1.2)	-0.5 (2.5)	0.6 (2.3)	0.7 (1.7)
	 GfK consumer confidence indicator	Nov	-19	-18	-17	-
	 Public sector net borrowing £bn	Oct	17.4	15.0	20.2	19.9

Auctions

Country	Auction
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- Nothing to report -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key data releases

Country		GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 24 November 2025						
Germany		09.00	ifo business climate indicator	Nov	88.5	88.4
		09.00	ifo current assessment (expectations) indicator	Nov	85.5 (91.6)	85.3 (91.6)
Tuesday 25 November 2025						
Euro area		05.00	New car registrations Y/Y%	Oct	-	9.0
Germany		07.00	GDP – final estimate Q/Q% (Y/Y%)	Q3	<u>0.0 (0.3)</u>	-0.2 (-0.1)
		07.00	GDP – private consumption Q/Q%	Q3	-	0.1
		07.00	GDP – government spending Q/Q%	Q3	-	1.2
		07.00	GDP – capital investment Q/Q%	Q3	-	-1.4
		07.00	GDP – government spending Q/Q%	Q3	-	-1.4
France		07.45	INSEE consumer confidence indicator	Nov	90	90
Spain		08.00	PPI Y/Y%	Oct	-	0.3
UK		11.00	CBI distributive trades survey – reported retail sales % balance	Nov	-30	-27
Wednesday 26 November 2025						
- Nothing scheduled -						
Thursday 27 November 2025						
Euro area		09.00	M3 money supply Y/Y%	Oct	2.8	2.8
		10.00	Commission economic sentiment indicator	Nov	96.9	96.8
		10.00	Commission services (industrial) confidence indicator	Nov	4.2 (-8.4)	4.0 (-8.2)
		10.00	Final Commission consumer confidence indicator	Nov	<u>-14.2</u>	-14.2
Italy		07.00	GfK consumer confidence indicator	Dec	-23.5	-24.1
		09.00	ISTAT consumer confidence indicator	Nov	97.6	97.6
		09.00	ISTAT business (manufacturing) confidence indicator	Nov	-	94.3 (88.3)
Friday 28 November 2025						
Euro area		09.00	ECB consumer expectations survey – 1Y (3Y) ahead CPI Y/Y%	Nov	2.6 (2.5)	2.7 (2.5)
Germany		07.00	Retail sales M/M% (Y/Y%)	Oct	-	0.2 (2.8)
		07.00	Import prices M/M% (Y/Y%)	Oct	0.0 (-1.6)	0.2 (-1.0)
		08.55	Unemployment claims rate % (change 000s)	Nov	6.3 (5)	6.3 (-1)
		13.00	Preliminary HICP (CPI) Y/Y%	Nov	2.4 (2.4)	2.3 (2.3)
France		07.45	GDP – final estimate Q/Q% (Y/Y%)	Q3	<u>0.5 (0.9)</u>	0.3 (0.7)
		07.45	Total (private sector) payrolls Q/Q%	Q3	<u>- (-0.3)</u>	0.2 (0.2)
		07.45	Preliminary HICP (CPI) Y/Y%	Nov	1.0 (1.0)	0.8 (0.9)
		07.45	Consumer spending M/M% (Y/Y%)	Oct	-	0.3 (-0.3)
		07.45	PPI Y/Y%	Oct	-	0.1
Italy		09.00	GDP – final estimate Q/Q% (Y/Y%)	Q3	<u>0.0 (0.4)</u>	-0.1 (0.5)
		10.00	Preliminary HICP (CPI) Y/Y%	Nov	1.3 (1.3)	1.3 (1.2)
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Nov	3.0 (3.0)	3.2 (3.1)
		08.00	Retail sales Y/Y%	Oct	-	4.2
UK		09.30	Lloyds business barometer (own price expectations) % balance	Nov	-	50 (63)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 24 November 2025		
Euro area		14.59 ECB President Lagarde gives keynote address to a high-level summit on AI, Bratislava
Tuesday 25 November 2025		
Germany		10.30 Auction: to sell up to €4bn of 2.2% 2030 bonds
Italy		10.00 Auction: to sell up to €2bn of 2.1% 2027 bonds
		10.00 Auction: to sell up to €1bn of 1.1% 2031 inflation-linked bonds
		10.00 Auction: to sell up to €1.5bn of 2.4% 2039 inflation-linked bonds
UK		10.00 Auction: to sell £4.5bn of 4.125% 2031 bonds
Wednesday 26 November 2025		
Euro area		09.00 ECB to publish Financial Stability Review
Germany		10.30 Auction: to sell up to €3bn of 2.6% 2035 bonds
UK		12.30 Chancellor of the Exchequer Reeves to present UK Budget to Parliament
Thursday 27 November 2025		
Euro area		12.30 ECB to publish monetary policy account of October 29-30 Governing Council meeting
Italy		10.00 Auction: to sell bonds*
Friday 28 November 2025		
- Nothing scheduled -		

*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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