Euro wrap-up

Overview

Chris Scicluna
+44 20 7597 8326

Emily Nicol
+44 20 7597 8331

- Bunds made modest losses as the Commission survey reported that economic sentiment in the euro area rose to a 2½-year high, with services firms the most upbeat in more than a year.
- Shorter-dated Gilts partly reversed yesterday's post-Budget gains on a quiet day for UK economic news.
- Friday will bring flash November inflation estimates from the larger euro area member states, as well as German retail sales data for October.

Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.019	+0.005
OBL 2.2 10/30	2.277	+0.011
DBR 2.6 08/35	2.673	+0.004
UKT 3¾ 03/27	3.753	+0.036
UKT 4⅜ 03/30	3.911	+0.039
UKT 4½ 03/35	4.455	+0.034

*Change from close as at 4:00pm GMT.
Source: Bloomberg

Euro area

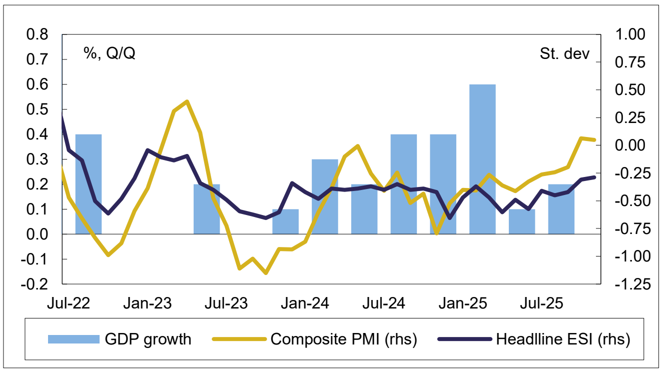
Economic sentiment up to 2½-year high despite softening in Germany

The ECB's account of its end-October policy-setting meeting today further supported our consensus view that the rate-cutting cycle has more likely than not concluded. Certainly, while policymakers still acknowledged two-sided risks to the outlook, today's account noted that the economy proved more resilient than feared and that growth expectations for the coming two years were close to pre-tariff expectations and potential. With some downside risks related to geopolitics having alleviated, the improved growth backdrop was illustrated by today's Commission survey results, in which the headline economic sentiment index (ESI) rose in November for a fourth month out of the past five to a 2½-year high (97.0). So, while the ESI remains 3% below the long-run average, like the flash composite PMI, it is tracking close to 1½% above the Q3 average, suggesting a further pickup in GDP growth this quarter from 0.2%Q/Q in Q3. Today's survey pointed to ongoing Iberian outperformance, with sentiment in Spain (105.9) the best in 14 months and the Portuguese ESI (106.0) the highest of the member states. There was also an encouraging further improvement in the Italian headline index (up 1.1pts to 101.8, the highest since April 2023). And while French sentiment (95.4) remained almost 5% below the long-run average, it too was the best in seven months. But after jumping in October, the German ESI (91.3) slipped back slightly this month to leave it trending little higher than in Q3 when activity merely flat-lined. Sentiment in Ireland also disappointed, falling some 2½pts to 95.7, close to the three-year low recorded after Trump's 'liberation day' announcement.

Services the most upbeat in more than a year, but lack of demand weighing on manufacturing

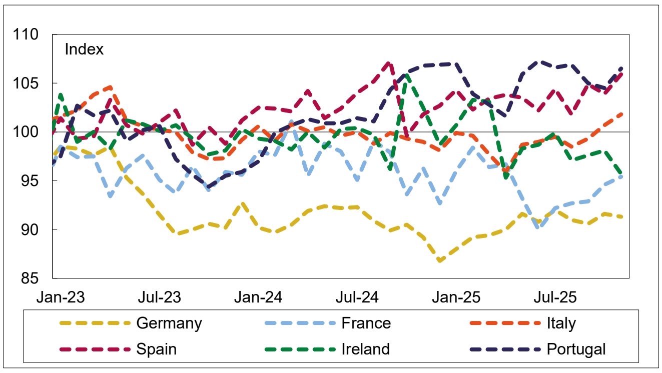
The improvement in business confidence in November was led by the services sector, where conditions were judged to be the most favourable in 13 months and the demand outlook the best in a year. While consumer confidence held steady at a nine-month high, households signalled the strongest spending on big-ticket items since early 2022, which tallied with an increase in retailer confidence to the highest since February. Nevertheless, willingness to save remained historically high despite moderating slightly in November and unemployment fears rose slightly. But the Commission's Employment Expectations Index (EEI) was the joint-highest for the year as services and constructors signalled their intentions to add to headcount, with the latter by the most since 2022 as roughly one quarter of building firms reported labour shortages. While a lack of demand remains the biggest challenge for construction firms, order books for building work were reportedly the best in six months. But having risen sharply in October on the back of a reported rebound in car production after summer shutdowns and shortages of certain key inputs, sentiment among manufacturers deteriorated this month as subdued orders weighed on production expectations. Discouragingly, the worsening mood was widespread across export-oriented industries including autos, other transport equipment, chemicals and basic metals.

Euro area: GDP growth & economic survey indices



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

Euro area: Economic sentiment indices

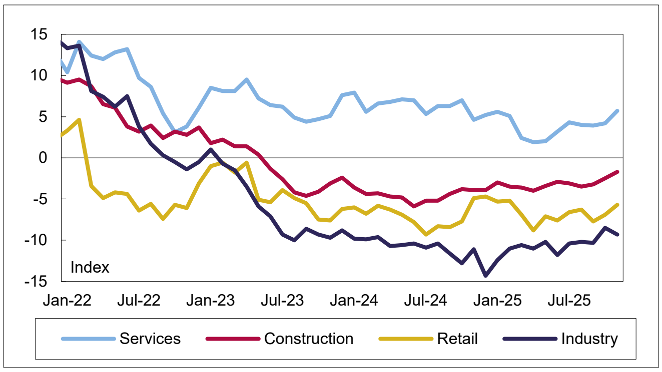


Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Bank lending growth still far from vigorous & consistent with a broadly neutral monetary stance

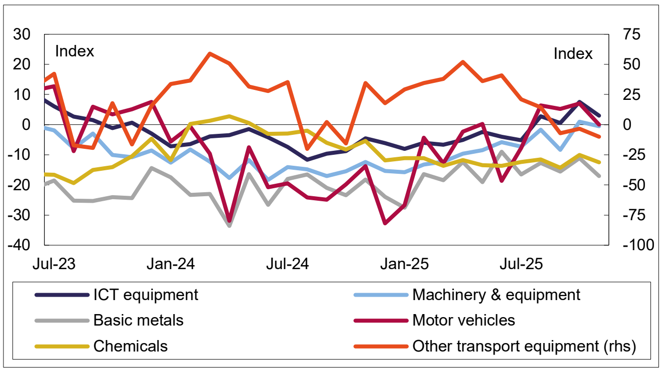
With the ECB having left its policy interest rates unchanged since June, average interest rates on bank loans to firms and households have broadly levelled off over recent months. Rates on new loans to businesses, which are more closely linked to short rates, remain further down from their peak than those on household mortgages, which tend to have longer fixes and are priced off the longer end of the curve. Nevertheless, the rates of growth in lending to non-financial corporations (NFCs) and households were very similar in the year to October, at or close to the top of the respective ranges of the past two years but still roughly ½ppt below the long-run averages. While the net flow slowed to the softest in five months, growth in the stock of loans to NFCs was unchanged at 2.9%Y/Y. Growth in longer-term loans – i.e. those with a maturity of more than five years, which tend to align more closely with business fixed investment – was a touch stronger at 3.0%Y/Y. With the housing market having turned for the better amid improved affordability, the flow of new mortgages was the firmest in more than three years, pushing the annual rate up to 2.8%Y/Y, the strongest since March 2023. With inflation down, loan growth in real terms is now back in positive territory. But it is still far from vigorous, consistent with ongoing moderate underlying economic growth somewhat below the potential rate, and suggestive of a monetary policy stance that is still broadly neutral rather than accommodative.

Euro area: Economic sentiment indices



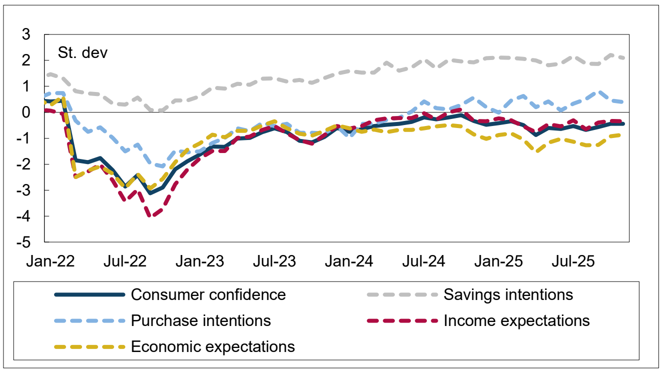
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing sentiment by sector



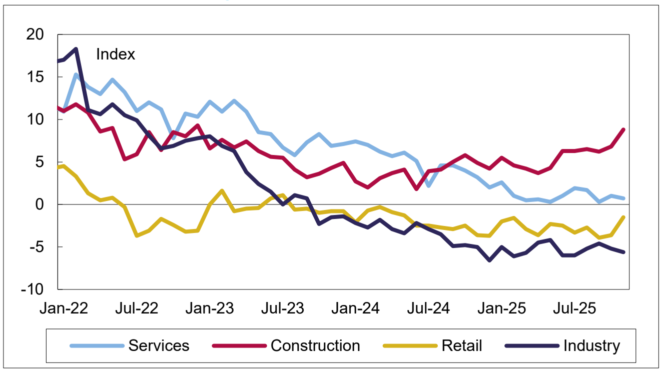
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer sentiment indices



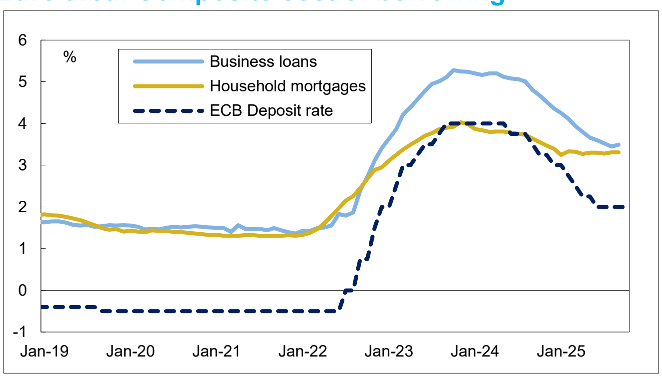
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment expectations indices



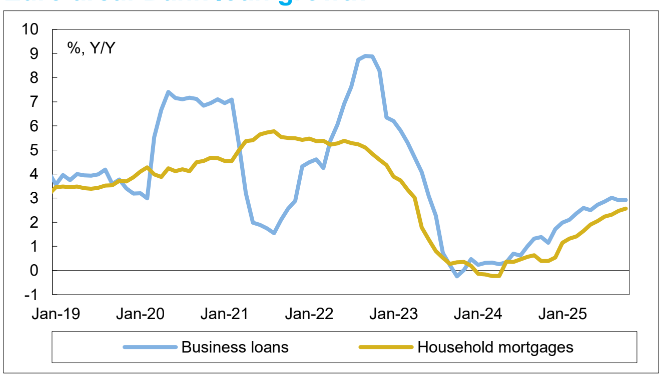
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Composite cost of borrowing



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Bank loan growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

The highlight of Friday's European dataflow will be November's flash inflation estimates from Germany, France, Italy and Spain. Those will help to inform expectations about Tuesday's preliminary euro area release, in which we expect a slight uptick in response to unfavourable base effects in some services components, including transport and package holidays. Higher fuel and heating oil prices this month pose additional upside risks. Tomorrow, we expect to see those pressures combine to nudge German and French inflation higher, reversing their drops in October. Spanish inflation, by contrast, could soften, courtesy of a steeper rise in electricity costs last November. Separately, the ECB's latest consumer expectations survey is likely to show that household inflation expectations remain well contained. Friday will also bring the first hard activity data of Q4, with October retail sales figures from Germany and Spain, as well as French consumer spending data, due. Final Q3 GDP estimates from France and Italy – the latter including a first breakdown by expenditure components – are expected to confirm that growth in France picked up last quarter (0.5%Q/Q) buoyed by net trade, while Italian economic activity merely stabilised (0.0%Q/Q) after a modest contraction in Q2.

The day ahead in the UK

With only a Lloyds business survey scheduled for release, it should be a quiet end to the week for UK economic news.

European calendar

Today's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	Commission economic sentiment indicator	Nov	**97.0**	96.9	96.8	-
	Commission services (industrial) confidence indicator	Nov	**5.7 (-9.3)**	4.4 (-8.3)	4.0 (-8.2)	4.2 (-8.5)
	Final Commission consumer confidence indicator	Nov	**-14.2**	*-14.2*	-14.2	-
	M3 money supply Y/Y%	Oct	**2.8**	2.8	2.8	-
	GfK consumer confidence indicator	Dec	**-23.2**	-23.5	-24.1	-
Italy	ISTAT consumer confidence indicator	Nov	**95.0**	97.6	97.6	-
	ISTAT business (manufacturing) confidence indicator	Nov	**96.1 (89.6)**	-	94.3 (88.3)	94.4 (88.4)

Auctions

Country	Auction
Italy	sold €2.75bn of 2.85% 2031 bonds at an average yield of 2.74%
	sold €4bn of 2035 floating-rate bonds at an average yield of 2.84%
	sold €2.75bn of 3.45% 2036 bonds at an average yield of 3.44%

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	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 (0.1)	0.0 (2.7)
		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	*0.5 (0.9)*	0.3 (0.7)
		07.45	Total (private sector) payrolls Q/Q%	Q3	-0.2 *(-0.3)*	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 (0.2)	0.3 (-0.3)
		07.45	PPI Y/Y%	Oct	-	0.1
Italy		09.00	GDP – final estimate Q/Q% (Y/Y%)	Q3	*0.0 (0.4)*	-0.1 (0.5)
		10.00	Preliminary HICP (CPI) Y/Y%	Nov	1.3 (1.2)	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)
Auctions and events						
- Nothing scheduled -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:
https://www.uk.daiwacm.com/ficc-research/recent-blogs