Euro wrap-up

Overview

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

- Bunds made modest losses after German inflation surprised to the upside in November, but French and Italian inflation remained subdued.
- Gilts were little changed on a quiet day for UK economic news.
- The coming week will bring flash euro area inflation estimates for November, unemployment and retail sales figures for October and a BoE business expectations survey.

Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.024	+0.002
OBL 2.2 10/30	2.289	+0.007
DBR 2.6 08/35	2.689	+0.011
UKT 3¾ 03/27	3.743	+0.003
UKT 4⅜ 03/30	3.896	-0.003
UKT 4½ 03/35	4.449	+0.001

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

Euro area

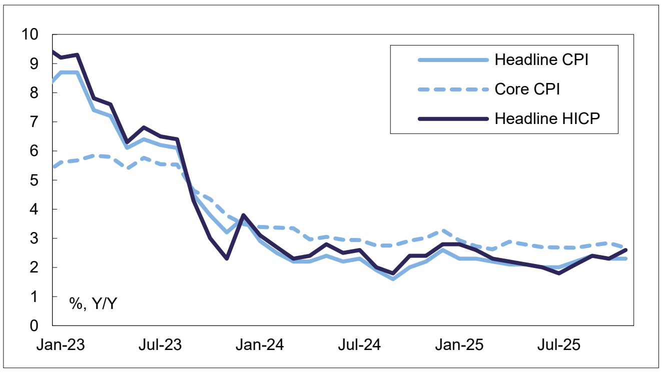
German HICP inflation surprises to the upside, but uptick likely to prove temporary

According to today's flash estimate, German inflation on the EU-harmonised measure was stronger than expected in November rising 0.3ppt to 2.6%Y/Y, a nine-month high. In contrast, however, the national CPI rate held steady at 2.3%Y/Y. An increase in German inflation had been expected in part as fuel prices rose sharply this month compared with a drop a year earlier. Exacerbated by that base effect, energy inflation on the national measure rose 0.8ppt to -0.1%Y/Y, the least negative since 2023. More reassuringly, inflation of food and non-alcoholic beverages, which some ECB policymakers insist is a key determinant of household inflation expectations, edged down slightly to a ten-month low (just 1.2%Y/Y), while non-energy industrial goods inflation moderated for a fourth consecutive month (1.4%Y/Y on our estimate). According to the national measure, the services CPI rate was stable, unchanged at 3.5%Y/Y, albeit the joint-highest since April. But the divergence between the national and EU-harmonised inflation rates likely related to certain items in this component. Notably, the regional data showed a step up in the package holiday component, which carries a larger weight in the HICP measure. As such, German core HICP inflation also likely rose in November even as the national core CPI rate edged down 0.1ppt to 2.7%Y/Y, the softest since March. But that increase in German services inflation seems likely to prove temporary and should not be a major concern for the ECB.

A drop in services inflation underpins subdued French and Italian inflation

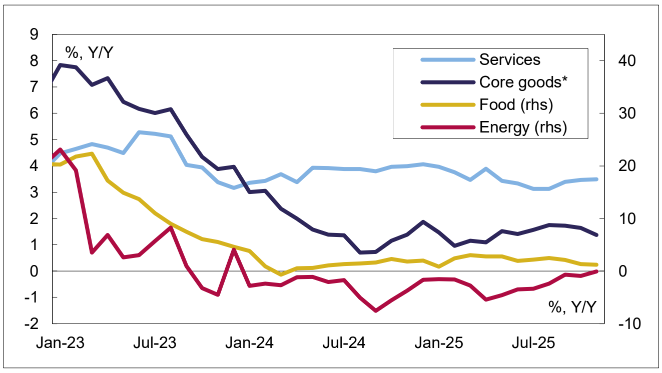
In contrast to Germany, the flash estimates of inflation from the euro area's second and third largest member states came in on the soft side in November. Despite similar upwards impulses from the energy component, the EU-harmonised CPI rate moved sideways in France, at just 0.8%Y/Y, and fell further in Italy, by 0.2ppt to 1.1%Y/Y, with the latter the softest since October 2024. Likely contrasting with Germany, however, services inflation moderated in France (down 0.2ppt to 2.2%Y/Y, a three-month low) and Italy (down a chunky 0.4ppt to 2.5%Y/Y, a 3½-year low), which INSEE attributed to communications and ISTAT to hospitality. So, despite a divergence in non-energy industrial goods inflation between the countries, core inflation in France and Italy appears to have moderated about 0.2ppt in November, with the Italian rate (1.7%Y/Y) a nine-month low. Given the data from other member states, including a slight moderation in Spain (3.1%Y/Y) but modest increases in Belgium and Portugal, the flash estimate of euro area headline inflation (due Tuesday) looks set to edge up 0.1ppt to 2.2%Y/Y. But while risks are arguably skewed to the upside, we expect core inflation to hold steady at 2.4%Y/Y for a third successive month. Admittedly, this is running a touch above the ECB's September projection and target. And some hawkish Governing Council members might flag the pickup in household inflation expectations for the year ahead reported in yesterday's Commission and today's ECB consumer survey measures. But medium-term inflation expectations – which are most relevant for monetary policy – remain stable and, reassuringly, broadly consistent with the ECB's 2% target.

Germany: Headline & core consumer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Key CPI inflation components



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

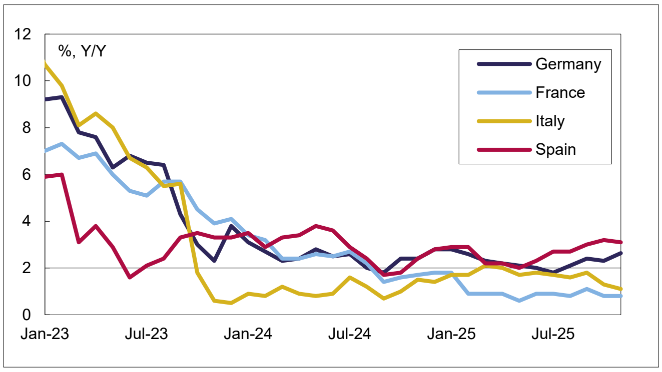
German retail spending on back foot at start of Q4, but continues to trend higher in France & Spain

The member states' spending figures for the start of Q4 were also mixed. After German household consumption contracted at the steepest pace for two years in Q3, retail sales started the fourth quarter on the back foot too, declining in October for the third month out of four (-0.3%M/M). And in the absence of a second successive increase in food (1.2%M/M), sales would have been even weaker. Indeed, non-food store sales fell for a third consecutive month to the lowest level in 14 months, more than 1% below the Q3 average. The GfK survey indicator of household purchase intentions rose to a seven-month high this month, perhaps supported by lower interest rates and inflation, as well as signs of stabilisation in the German jobs market as vacancies rose in November for the first month in five. But German retailers have hinted at a disappointing start to the Christmas season, suggesting that spending in the euro area's largest member state remains subject to downside risks. In contrast, and perhaps surprisingly, the latest data from France point to growing spending momentum at the start of Q4. French household expenditure on goods rose for a third consecutive month in October (0.4%M/M), some 0.7% higher than the Q3 average. Admittedly, the acceleration was principally driven by higher spending on energy during the coldest October for three years. But sales of food and new cars also increased. And while Spanish retail sales moved sideways in October due to a decline in food sales, they were still almost ½% above the Q3 average.

The week ahead in the euro area

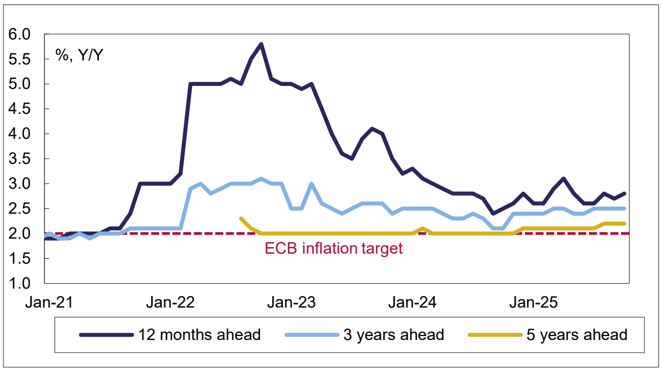
While the majority of November's flash inflation readings were a touch softer than expected, the uptick in the German HICP rate looks to support our earlier call for a modest increase in the flash euro area headline figure (due Tuesday). Indeed, having moved a touch lower in October, we expect euro area consumer price inflation to edge back up by 0.1ppt to 2.2%Y/Y. We see core inflation moving sideways in November at 2.4%Y/Y, albeit with upside risks to our forecast given the influence of certain services components on the headline rate. With regards to economic activity, today's German data imply a sluggish start to Q4 for euro area retail sales growth (due Thursday), potentially indicative of a third consecutive monthly drop in sales volumes. That said, we can be slightly less downbeat about the prospects for the production outlook in Q4. Indeed, following a deep contraction in Q3, new German factory orders (October data due Friday) showed encouraging signs of stabilisation in September, rising for a first month since March. October's ifo survey also flagged the healthiest demand situation for manufacturers since Russia's invasion of Ukraine, potentially teasing a further improvement. INSEE's business survey similarly pointed towards an improvement in confidence and orders in October, although our predictions for French industrial production and goods trade data (also Friday) are tempered by the recent weakness of the manufacturing PMIs. And in terms of surveys, November's final PMIs – manufacturing (Monday), services (Wednesday) and construction (Thursday) – will likely continue to signal steady services-led growth through Q4 consistent with the flash release.

Euro area member states: Headline HICP inflation



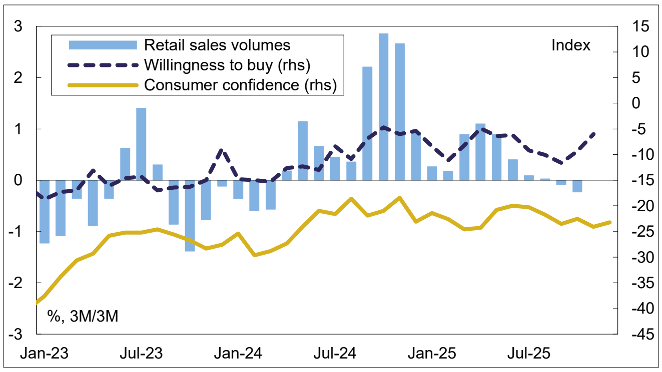
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: ECB consumer inflation expectations



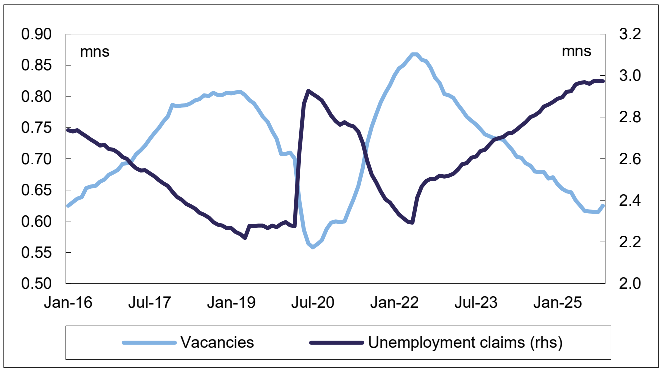
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Job vacancies & jobless claims



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

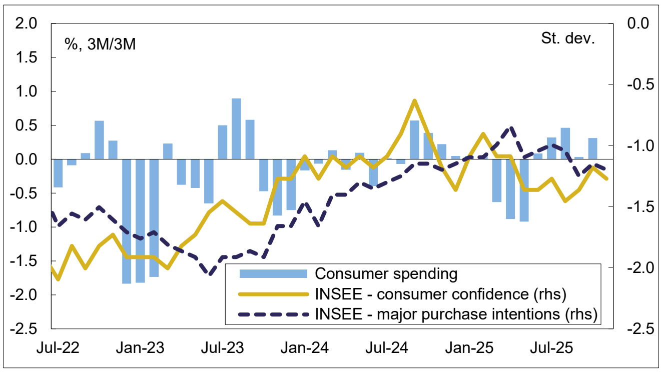
The coming week will also bring the third and final estimates of euro area GDP growth in Q3 (Friday). While predictably still well down from Q1, which was flattered by tariff front-running, the preliminary estimate reported a modest pickup in euro area growth last quarter (0.2%Q/Q). But with the Italian estimate today revised up 0.16ppt to 0.1%Q/Q courtesy of a boost from inventories, we see a solid chance of an upwards revision to the euro area figure. Of course, the final GDP estimates from Ireland (due Thursday), which frequently have an outsized effect on the euro area reading, could again prove decisive. And while the Irish flash estimate of -0.1%Q/Q was surprisingly stable, another bumper month for exports in September could offer some upside there too. Meanwhile, the accompanying expenditure breakdown of euro area GDP, to be published for the first time, might be less upbeat, with private consumption growth likely to remain subdued and higher public expenditure required to offer greater offset. But fixed investment and goods exports likely made a modestly positive contribution after contracting in Q2.

UK

The week ahead in the UK

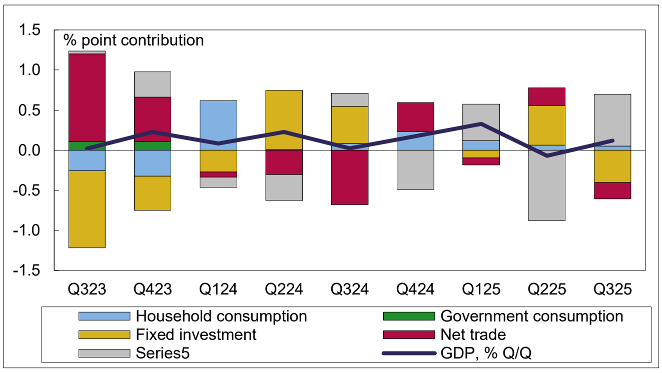
The week ahead will bring a resumption of the more familiar UK economic dataflow, with October's bank lending figures (Monday), the BoE's Decision Maker Panel survey (Thursday) and November's final manufacturing (Monday) and services PMIs (Wednesday) due. With respect to the latter, the extent of the deterioration captured by the flash survey – the composite output PMI fell 1.8pts to 50.5, broadly consistent with stagnating conditions – implied a loss of growth momentum midway through Q4. And while the flash employment PMI signalled a reacceleration in job shedding to its fastest in five-months (45.3), output price inflation reportedly slowed sharply to the softest pace in almost five years (50.4). The BoE's DMP survey will provide a comparator for those indices, while its indicators of pay and inflation expectations will be afforded weight by the MPC. Meanwhile, October's bank lending figures will reveal the extent to which Budget-related uncertainty disrupted mortgage and business lending activity at the start of Q4. We acknowledge, however, that their continued recovery throughout Q3 suggested that borrowers were relatively unperturbed by the pre-Budget political theatrics. Nationwide's house price indicator (Tuesday) will provide a more timely indication about any potential impact on housing market activity. And the BRC's shop prices survey (also Tuesday) will provide insights as to the extent of Black Friday discounting and momentum in food inflation ahead of November's CPI release (on December).

France: Consumer spending & confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: GDP growth & expenditure contributions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The next Euro wrap-up will be published on Tuesday 2 December 2025

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	0.3	1.4	1.1	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	1.8
Core HICP	2.4	2.3	2.5	2.3	1.8	1.6	2.4	1.8	1.6
UK									
Headline CPI	3.5	3.8	3.6	3.2	2.3	2.1	3.4	2.4	2.0
Core CPI	3.7	3.6	3.5	3.3	2.6	2.3	3.6	2.6	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	3.00

Source: Bloomberg, ECB, BoE 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	ECB consumer expectations survey – 1Y (3Y) ahead CPI Y/Y%	Nov	**2.8 (2.5)**	2.6 (2.5)	2.7 (2.5)	-
Germany	Preliminary HICP (CPI) Y/Y%	Nov	**2.6 (2.3)**	2.4 (2.4)	2.3 (2.3)	-
	Retail sales M/M% (Y/Y%)	Oct	**-0.3 (1.3)**	0.2 (0.1)	0.0 (2.7)	0.3 (3.4)
	Unemployment claims rate % (change 000s)	Nov	**6.3 (1)**	6.3 (5)	6.3 (-1)	6.3 (-2)
	Import prices M/M% (Y/Y%)	Oct	**0.2 (-1.4)**	0.0 (-1.6)	0.2 (-1.0)	-
France	GDP – final estimate Q/Q% (Y/Y%)	Q3	**0.5 (0.9)**	*0.5 (0.9)*	0.3 (0.7)	-
	Total (private sector) payrolls Q/Q%	Q3	**0.0 (-0.1)**	-0.2 *(-0.3)*	0.2 (0.2)	-
	Preliminary HICP (CPI) Y/Y%	Nov	**0.8 (0.9)**	1.0 (1.0)	0.8 (0.9)	-
	Consumer spending M/M% (Y/Y%)	Oct	**0.4 (0.4)**	0.3 (0.2)	0.3 (-0.3)	-
	PPI Y/Y%	Oct	**-0.8**	-	0.1	-
Italy	GDP – final estimate Q/Q% (Y/Y%)	Q3	**0.1 (0.6)**	*0.0 (0.4)*	-0.1 (0.5)	-
	Preliminary HICP (CPI) Y/Y%	Nov	**1.1 (1.2)**	1.3 (1.2)	1.3 (1.2)	-
Spain	Preliminary HICP (CPI) Y/Y%	Nov	**3.1 (3.0)**	3.0 (3.0)	3.2 (3.1)	-
	Retail sales Y/Y%	Oct	**3.8**	-	4.2	4.1
UK	Lloyds business barometer (own price expectations) % balance	Nov	**42 (60)**	-	50 (63)	-

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/ *Daiwa forecast*	Previous
		Monday 1 December 2025			
Euro area	09.00	Final manufacturing PMI	Nov	*49.7*	50.0
Germany	08.55	Final manufacturing PMI	Nov	*48.4*	49.6
France	08.50	Final manufacturing PMI	Nov	*47.8*	48.8
Italy	08.45	Manufacturing PMI	Nov	50.1	49.9
Spain	08.15	Manufacturing PMI	Nov	52.3	52.1
UK	07.00	Net consumer credit £bn (Y/Y%)	Oct	-	1.5 (7.3)
	07.00	Net mortgage lending £bn (mortgage approvals 000s)	Oct	4.5 (64.0)	5.5 (65.9)
	09.30	Final manufacturing PMI	Nov	*50.2*	49.7
		Tuesday 2 December 2025			
Euro area	10.00	Preliminary headline (core) HICP Y/Y%	Nov	*2.2 (2.4)*	2.1 (2.4)
	10.00	Unemployment rate %	Oct	6.3	6.3
Italy	11.00	PPI Y/Y%	Oct	-	1.5
Spain	07.00	Unemployment (net employment) change 000s	Nov	-	22.1 (64.6)
UK	00.01	Nationwide house prices M/M% (Y/Y%)	Nov	0.0 (1.4)	0.3 (2.4)
	11.00	BRC shop price index Y/Y%	Nov	-	1.0
		Wednesday 3 December 2025			
Euro area	09.00	Final composite (services) PMI	Nov	*52.4 (53.1)*	52.5 (53.0)
	10.00	PPI Y/Y%	Oct	-0.5	-0.2
Germany	08.55	Final composite (services) PMI	Nov	*52.1 (52.7)*	53.9 (54.6)
France	08.50	Final composite (services) PMI	Nov	*49.9 (50.8)*	47.7 (48.0)
Italy	08.45	Composite (services) PMI	Nov	52.6 (54.0)	53.1 (54.0)
Spain	08.15	Composite (services) PMI	Nov	55.8 (56.3)	56.0 (56.6)
UK	09.30	Final composite (services) PMI	Nov	*50.5 (50.5)*	52.2 (52.3)
		Thursday 4 December 2025			
Euro area	08.30	Construction PMI	Nov	-	44.0
	10.00	Retail sales M/M% (Y/Y%)	Oct	0.0 (1.4)	-0.1 (1.0)
Germany	08.30	Construction PMI	Nov	-	42.8
France	08.30	Construction PMI	Nov	-	39.8
Italy	08.30	Construction PMI	Nov	-	50.7
UK	09.00	New car registrations Y/Y%	Nov	-	0.5
	09.30	DMP 3M output price (1Y CPI) expectations Y/Y%	Nov	-	3.7 (3.4)
	09.30	Construction PMI	Nov	44.1	44.1
		Friday 5 December 2025			
Euro area	10.00	GDP – final estimate Q/Q% (Y/Y%)	Q3	*0.2 (1.4)*	0.1 (1.5)
	10.00	GDP – household consumption Q/Q%	Q3	0.1	0.2
	10.00	GDP – government spending Q/Q%	Q3	0.6	0.5
	10.00	GDP – fixed investment Q/Q%	Q3	0.1	-1.8
	10.00	Employment – second estimate Q/Q% (Y/Y%)	Q3	*0.1 (0.5)*	0.1 (0.6)
Germany	07.00	Factory orders M/M% (Y/Y%)	Oct	0.5 (-2.4)	1.1 (-4.3)
France	07.45	Industrial production M/M% (Y/Y%)	Oct	-0.1 (1.3)	0.8 (1.3)
	07.45	Trade balance €bn	Oct	-	-6.6
Italy	09.00	Retail sales M/M% (Y/Y%)	Oct	-	-0.5 (0.5)
Spain	08.00	Industrial production M/M% (Y/Y%)	Oct	0.5 (0.8)	0.4 (1.7)
	08.00	House price index Q/Q% (Y/Y%)	Q3	-	4.0 (12.7)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions			
Country		GMT	Event / Auction
			Monday 1 December 2025
UK		15.30	MPC External Member Dhingra to give keynote speech at UK Trade Policy Observatory annual conference
			Tuesday 2 December 2025
Germany		10.30	Auction: to sell up to €4.5bn of 2% 2027 bonds
UK		10.00	Auction: to sell £1bn of 0.125% 2031 inflation-linked bonds
			Wednesday 3 December 2025
Euro area		10.30	ECB Chief Economist Lane to deliver keynote speech at exchange rates conference hosted by Bank of Slovenia, Ljubljana
		13.30	ECB President Lagarde to speak before European Parliament's Committee on Economic and Monetary Affairs, Brussels
UK		10.00	Auction: to sell £4.75bn of 4% 2029 bonds
		17.00	MPC External Member Mann on panel discussing reserve currencies at GIC College of Central Bankers Symposium, New York
			Thursday 4 December 2025
France		09.50	Auction: to sell up to €5.5bn of 4.75% 2035, 0.5% 2040, 4.5% 2041 and 3.25% 2055 bonds
Spain		09.30	Auction: to sell 2.7% 2030, 0.85% 2037 bonds, and 1.15% 2036 inflation-linked bonds
UK		10.00	Auction: to sell £1bn of 4.25% 2039 bonds
			Friday 5 December 2025
Italy		10.00	Istat to publish economic outlook for 2025-26

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