

Euro wrap-up

Overview

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- Bunds followed the global trend lower even as euro area retail sales figures suggested a soft start to household spending in Q4.
- Gilts bucked the trend to make gains across the curve after the UK construction PMI slumped to the lowest level since the first pandemic lockdown and the global financial crisis before that.
- Friday will bring updated estimates of euro area Q3 GDP and its first expenditure breakdown, as well as October German factory orders and French industrial production data.

Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.064	+0.011
OBL 2.2 10/30	2.362	+0.024
DBR 2.6 08/35	2.768	+0.023
UKT 3½ 03/27	3.720	-0.014
UKT 4% 03/30	3.878	-0.018
UKT 4½ 03/35	4.430	-0.016

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

Source: Bloomberg

Euro area

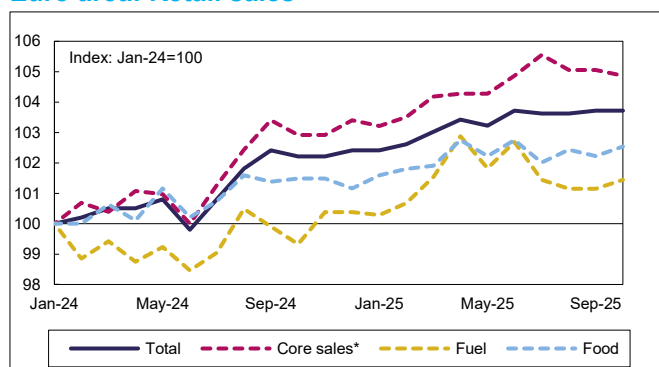
Retail sales start Q4 on the soft side, but retailers more upbeat about near-term outlook

While euro area GDP growth picked up slightly in Q3 (by 0.1ppt to 0.2%Q/Q), persisting economic uncertainties due to geopolitical and political risks and fears of rising unemployment in certain core member states kept a lid on household spending over the summer. Admittedly, the sharp slowdown in retail sales growth from 0.8%Q/Q to 0.2%Q/Q in Q3 was related to the first decline in food store sales in seven quarters. In contrast, spending on core goods rose for an eighth successive quarter and by a solid 0.7%Q/Q in Q3. But growth last quarter was boosted by a positive carry over from the end of Q2. Indeed, notwithstanding the modest increase in total sales in September, the level that month was no stronger than in June. And disappointingly, today's figures suggested a soft start to Q4 for household spending, with no growth in total goods sales in October despite the recent pickup in consumer confidence. Indeed, while there was an increase in sales of staple goods, spending on core goods fell for a second month in three to be some 0.3% below the Q3 average. Nevertheless, despite German retailers reportedly flagging a weak start to Christmas spending, the Commission survey suggested that, overall in the euro area, sales in the three months to November were best since February. And with consumer purchase intentions the strongest in 3½ years, we expect to see a bounce in spending on big-ticket items heading into year-end and a more meaningful recovery in household consumption next year.

Construction PMI suggestive of ongoing contraction, despite bounce in German civil engineering

Contrasting the steady services sector recovery signalled by the PMIs and relative resilience to higher tariffs implied by the manufacturing indices, the equivalent euro area construction survey has been subject to greater volatility, while also pointing to persisting challenges in the sector since the start of the year. Today's survey results for November were somewhat more encouraging, however, with the headline construction activity index rising for the first month in three, by 1.5pts to 45.4, led by a partial rebound in Germany (up 2.3pts to 45.2) and France (up 3.7pts to 43.6). But the Italian index (48.2) slipped to a three-month low in November. And overall, the euro area index was still tracking some 1pt below the Q3 average, with the German index trending more than 2pts lower. While housebuilding and commercial work remain particularly subdued, the improvement in November was led by civil engineering (49.8). And this was linked to a bounce in Germany, where the respective index (52.3) recorded the fourth above-50 'expansionary' reading in the past six months, tallying with the recovery in the German ifo and Commission ESIs over recent months and suggesting that the government's infrastructure spending boost is finally feeding through to activity. The surveys suggest that a shortage of skilled workers continues to constrain civil engineering activity. But encouragingly, today's PMIs signalled the softest decline in new orders in seven months, raising hopes that improving demand will drive a more meaningful and broader based recovery in construction in the New Year.

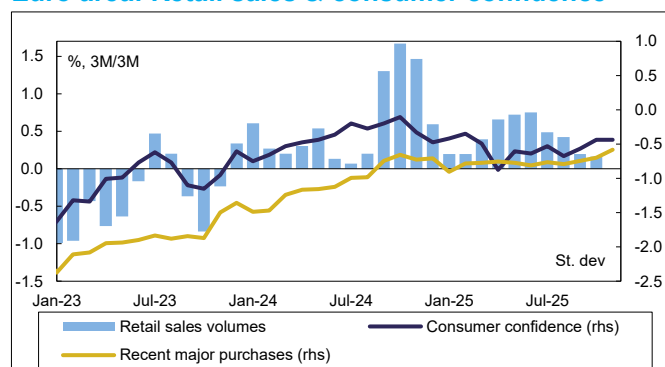
Euro area: Retail sales



*Non-food and non-fuel sales.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Retail sales & consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

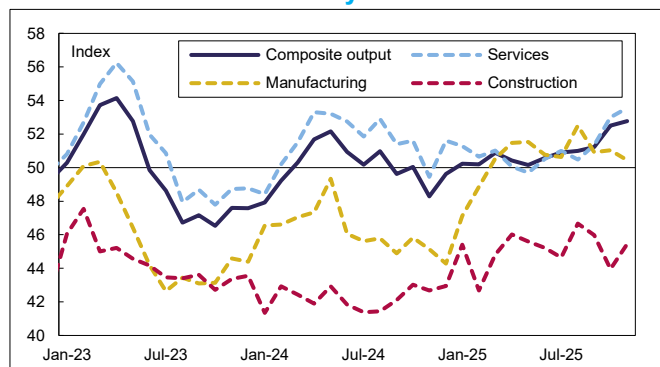
Friday will bring an updated estimate of euro area GDP growth in Q3. After the tariff-related slowdown in Q2 (0.1%Q/Q), the preliminary estimate reported a modest pickup in euro area economic growth last quarter (0.2%Q/Q). To two decimal places growth was on the high side (0.23%Q/Q), raising the possibility of a modest upward tweak. This notwithstanding, the impact of stronger than initially estimated growth in Italy (up 0.1ppt to 0.1%Q/Q) was likely offset by the adjustment to Irish GDP, which today saw growth revised down 0.2ppt to -0.3%Q/Q. Meanwhile, the accompanying expenditure breakdown of euro area GDP, to be published for the first time, will likely suggest that private consumption growth was subdued, with higher public expenditure required to offset. But fixed investment and goods exports likely made a modestly positive contribution after contracting in Q2, not least reflecting another bumper month for Irish exports to the US in September. Looking ahead, national releases will provide insight into developments into manufacturing sector activity at the start of Q4, with German factory orders and French and Spanish industrial production data for October due.

UK

Construction PMI plunges to a 5½-year low as new business the weakest since 2009

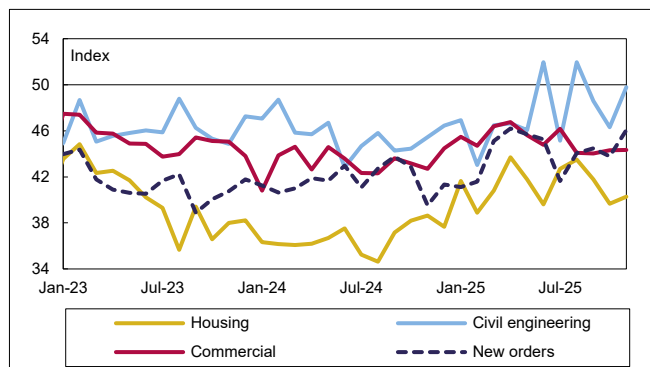
Like the deterioration in the November services and manufacturing PMIs, today's UK construction survey pointed to a sharp and accelerated deterioration in conditions midway through Q4 as firms reported widespread challenges, not least related to weak demand that was reportedly exacerbated by delayed decision making ahead of the Autumn Budget. In particular, the headline construction activity index slumped more than 4½pts to 39.4, the lowest since the first Covid-19 lockdown in 2020 and the global financial crisis before that. The weakness was broad based, led by the steepest drop in the housebuilding PMI in 5½ years – down 8.2pts to 35.4 – and the lowest civil engineering index (30.0) since the series began in 1997 aside from in April 2020. And the near-term outlook remains bleak due to a lack of incoming new work, for which the respective index was the lowest since the global financial crisis aside from the first Covid lockdown, with less than one fifth of respondents reporting an increase in new business last month. With fewer than one third of firms in the sector expecting an upturn in business activity over the coming twelve months, and with cost burdens reportedly rising, constructors reportedly continued to cut headcount in November, with the respective employment index implying the steepest decline for more than five years.

Euro area: Headline activity PMIs



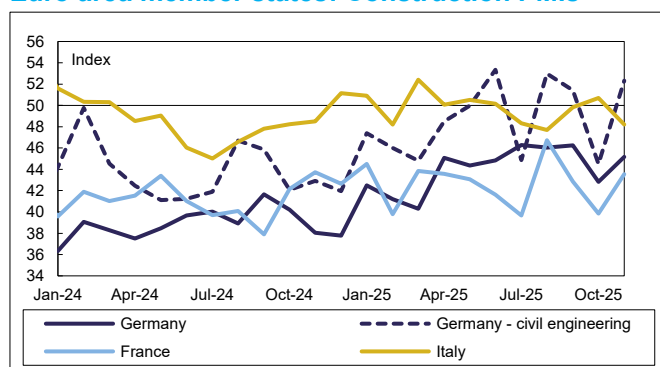
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Construction PMIs



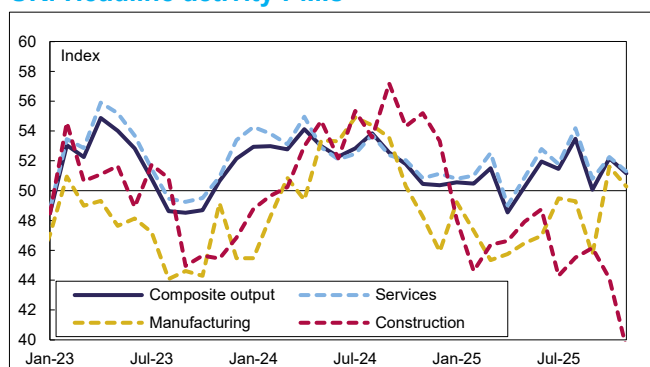
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Construction PMIs



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

UK: Headline activity PMIs



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

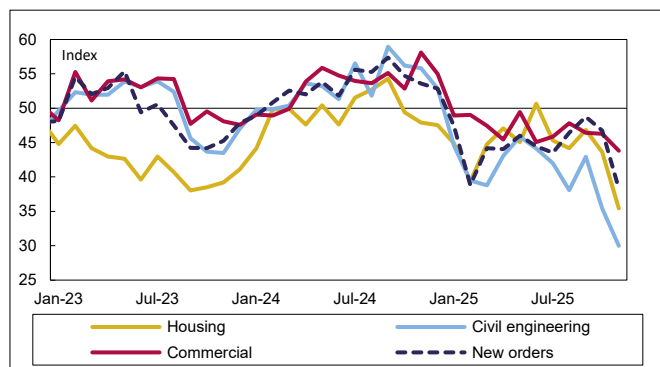
BoE survey suggests business inflation expectations unchanged, but employment growth weaker

The further weakening in the labour market tallied with the findings from the BoE's latest Decision Maker Panel survey, which reported that employment growth among firms in the DMP fell 0.7%3M/Y in November, down 0.4ppt from October, with expectations for a further modest decline over the coming year too. And while their expected year-ahead wage growth nudged up slightly, by 0.1ppt to 3.8% in the three months to November, the single-month figure was softer and that forecast still implied a moderation of 0.7ppt in pay growth from the past 12 months. Admittedly, the BoE hawks might draw attention to the fact that the inflation expectations of firms surveyed remained sticky last month. Indeed, those businesses expect output price inflation to be broadly unchanged at 3.4%3M/Y in twelve months and CPI in three years' time to be still 1ppt above the 2% target. Overall, however, we think the growing evidence of subdued demand, softer jobs and wage growth, as well as a tightening fiscal stance and the likely ongoing moderation in headline and services inflation to encourage a small majority on the MPC (including BoE Governor Bailey) to vote for another interest rate cut this month and further easing in the first half of 2026.

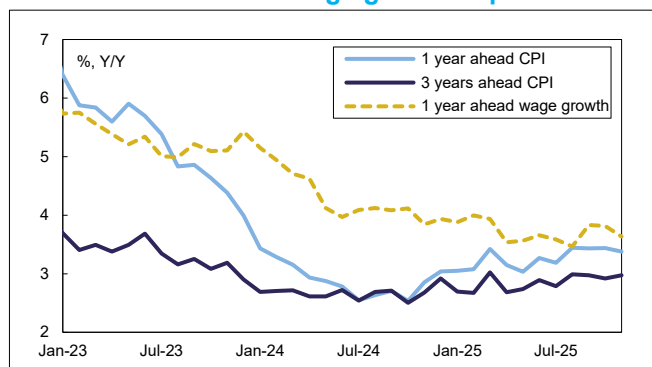
The day ahead in the UK

It should be a quiet end to the week for UK economic news, with no top-tier releases due.

UK: Construction PMIs



UK: Firms' inflation & wage growth expectations



European calendar

Today's results

Economic data












Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Construction PMI	Nov	45.4	-	44.0	-
	Retail sales M/M% (Y/Y%)	Oct	0.0 (1.5)	0.0 (1.4)	-0.1 (1.0)	0.1 (1.2)
Germany	Construction PMI	Nov	45.2	-	42.8	-
France	Construction PMI	Nov	43.6	-	39.8	-
Italy	Construction PMI	Nov	48.2	-	50.7	-
UK	New car registrations Y/Y%	Nov	-1.6	-	0.5	-
	DMP 3M output price (1Y CPI) expectations Y/Y%	Nov	3.7 (3.4)	-	3.7 (3.4)	3.6 (-)
	Construction PMI	Nov	39.4	44.1	44.1	-

Auctions




Country	Auction
France	sold €1.79bn of 4.75% 2035 bonds at an average yield of 3.38%
	sold €1.6bn of 0.5% 2040 bonds at an average yield of 3.89%
	sold €841mn of 4.5% 2041 bonds at an average yield of 3.89%
	sold €831mn of 3.25% 2055 bonds at an average yield of 4.37%
Spain	sold €1.48bn of 2.7% 2030 bonds at an average yield of 2.471%
	sold €1.4bn of 0.85% 2037 bonds at an average yield of 3.414%
	sold €481mn of 1.15% 2036 inflation-linked bonds at an average yield of 1.463%
UK	sold £1bn of 4.25% 2039 bonds at an average yield of 4.813%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases
Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		10.00 GDP – final estimate Q/Q% (Y/Y%)	Q3	<u>0.2 (1.4)</u>	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	<u>0.1 (0.5)</u>	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)

Auctions and events

Euro area		14.45 ECB's Villeroy de Galhau to give keynote speech on monetary policy			
		15.10 ECB Chief Economist Lane to participate in panel discussion on "global imbalances & the international monetary order"			
Italy		10.00 ISTAT to publish economic outlook for 2025-26			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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