

Euro wrap-up

Overview

- Bunds followed the global trend lower as German industrial production data for October surprised to the upside, raising hopes of a return to positive GDP growth in Q4.
- Gilts also made losses on a quiet day for UK economic news.
- Tuesday will bring October data for German goods trade and Irish industrial production, as well as a UK retail sales survey.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.164	+0.073
OBL 2.2 10/30	2.487	+0.088
DBR 2.6 08/35	2.869	+0.072
UKT 3¾ 03/27	3.813	+0.041
UKT 4¾ 03/30	4.003	+0.072
UKT 4½ 03/35	4.537	+0.062

*Change from close as at 4:15pm GMT.

Source: Bloomberg

Euro area

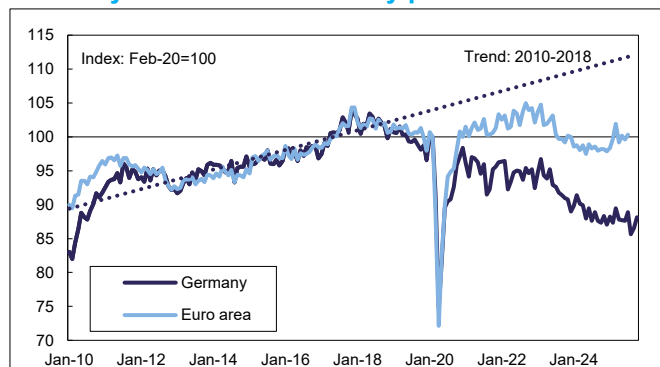
Upside surprise to German industrial output raises hopes of a return to positive GDP growth in Q4

After Friday's figures reported solid growth in [factory orders](#) in October, today's German industrial production data provided further tentative evidence that conditions in manufacturing turned for the better at the start of Q4. Indeed, having dropped in August to the lowest level since the first Covid-19 lockdown, industrial output rose for a second month in October, by a stronger-than-expected 1.8%M/M. This was the largest monthly increase since tariff front-loading in March and the first pair of successive monthly increases since early 2024. Admittedly, part of the strength related to a rebound in construction activity, which jumped the most in 20 months (3.3%M/M) to be tracking some 2% above the Q3 level. This was underpinned by further growth in civil engineering (2.3%M/M) to the second-highest level in 18 months. And building work rose for first month in four, albeit leaving the level still down more than 6%Y/Y and almost ½% below the Q3 average. But most importantly, manufacturing output also rose for the second successive month (1.5%M/M), while energy production increased to a seven-month high. Overall, this left total industrial output more than 1% above the Q3 average, raising hopes that the factory sector will make a positive and broad-based contribution to GDP growth this quarter. Indeed, while recent surveys provided mixed messages about the near-term production outlook, truck toll mileage – often a proxy for manufacturing output – appears to have risen again in November. And on average, firms expect a more meaningful recovery to come in the New Year, when the government's fiscal plans should provide more of a boost to infrastructure- and defence-related subsectors.

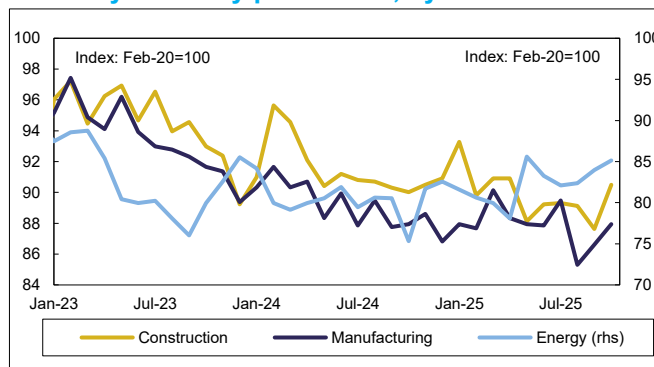
But German automakers continue to face multiple challenges

Encouragingly, output rose in a wide range of sub-sectors in October, with the strongest growth in export-oriented industries such as pharmaceuticals and basic metals. In addition, production of data processing, electronic and optical products rose to the highest level for two years. But while output of other transport equipment rose for a second successive month, the motor vehicle subsector started the fourth quarter in reverse, with production falling to a level some 2% below the Q3 average. While the recent volatility in autos in part relates to summer maintenance shutdowns and model changeovers, there undoubtedly remain structural challenges in the sector, relating not least to global competition, waning demand from China and higher US tariffs. And amid rising demand for electric vehicles – for which the share of registrations rose above one third in November – a shortage of semiconductors and restrictions on Chinese exports of key rare earths added a further blow. Indeed, according to the ifo business survey, more than one in four auto manufacturers reported bottlenecks in the supply of intermediate goods in November, the highest since January 2024, maintaining downbeat sentiment in the subsector. Worsening materials shortages were reported in the data processing and electrical equipment subsectors too.

Germany & euro area: Industry production



Germany: Industry production, by sector



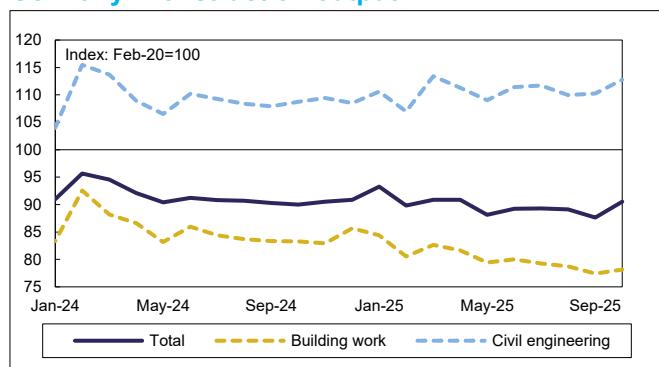
The day ahead in the euro area

Recent encouraging industrial production and orders data inevitably raise hopes for an upturn in German exports in October, after net trade made another negative contribution (a sixth in the last seven) to GDP in Q3. Indeed, with most of the recent weakness centered on the US, September's exports data suggested some stabilisation. Timelier bilateral Chinese data, however, have been less encouraging. And while new orders from elsewhere in the EU have firmed and US-bound container freight data turned more positive last month, we note that the distinct lull in trans-Atlantic volumes departing from Europe in October suggests that the risks to tomorrow's German trade data might be skewed more to the downside.

The day ahead in the UK

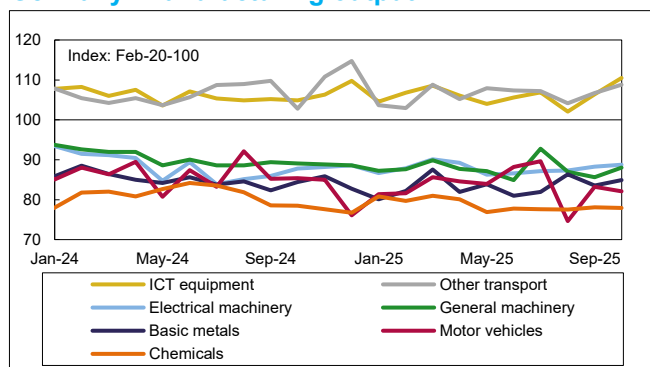
While the UK retail sector endured a bruising start to Q4 amid rife pre-Budget uncertainty with sales volumes falling 1%M/M, the British Retail Consortium had previously suggested that November's impending Black Friday discounts contributed to consumers' delayed purchases. So, ahead of November's official retail sales data (on 19 Dec), Tuesday's BRC retail monitor will provide a first indication as to how much support the discount period might have provided. Given the depressing effects of the relatively late timing of last year's sales, we note that an improvement to the headline like-for-like sales figure is likely. Beyond the data, BoE Deputy Governors Lombardelli and Ramsden, along with external MPC members Mann and Dhingra, are due to present the findings of the November MPR to the Treasury Select Committee. While their statements are likely to convey little change in their voting preference between that meeting and now, their comments will still be of interest.

Germany: Construction output



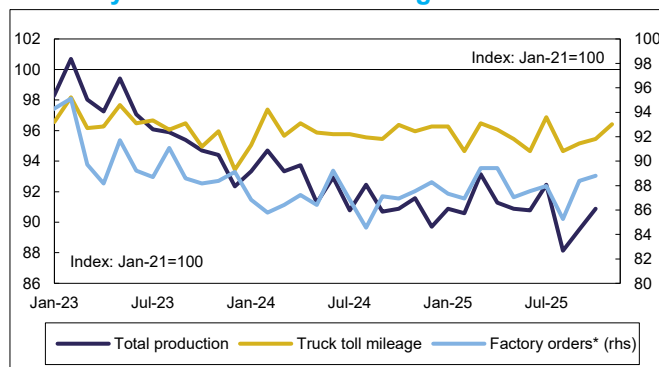
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing output



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

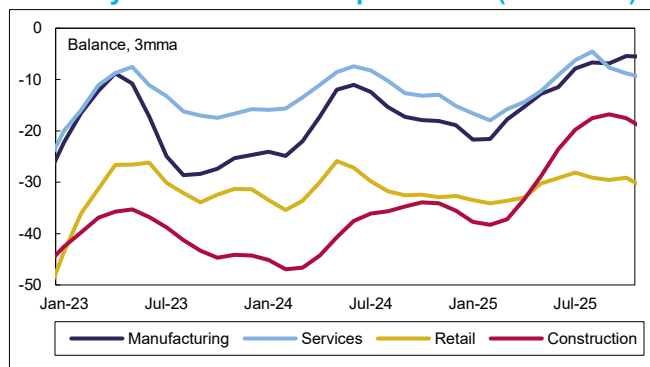
Germany: Various manufacturing indicators



*Orders excluding bulk items.

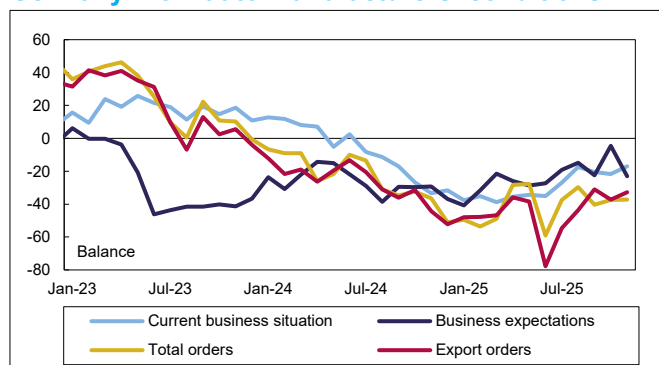
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo – business expectations (6m ahead)



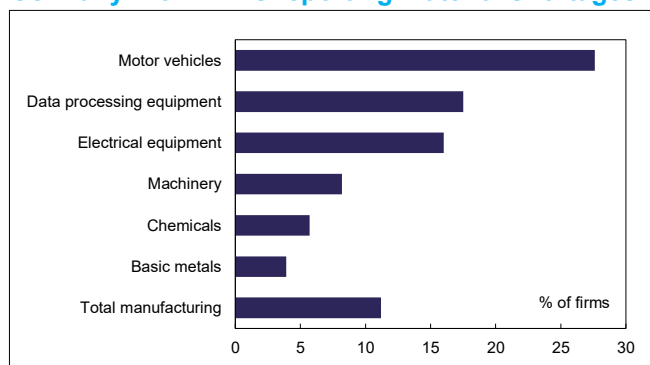
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo – auto manufacturers' conditions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo – firms reporting material shortages





Source: Macrobond and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 Sentix investor confidence indicator	Dec	-6.2	-6.3	-7.4	-
Germany	 Industrial production M/M% (Y/Y%)	Oct	1.8 (0.8)	0.3 (-0.4)	1.3 (-1.0)	1.1 (-1.4)



Auctions

Country	Auction
- Nothing to report -	



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	Trade balance €bn	Oct	15.7	15.2
UK	 00.01	BRC retail monitor – like-for-like sales Y/Y%	Nov	2.5	1.5

Auctions and events

UK	 10.00	Auction: to sell £750mn of 4.25% 2032 bonds			
	 14.15	BoE's Lombardelli, Ramsden & External MPC members Mann & Dhingra appear before the Treasury Select Committee			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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