

Euro wrap-up

Overview

- Bunds were little changed as Germany's goods trade surplus matched a five-month high in October, but export growth paused.
- Gilts outperformed slightly as a UK retail survey flagged disappointing Black Friday sales, pointing to weaker consumption growth in Q4.
- The coming few days will bring Italian industrial production figures (tomorrow), a UK housing survey (Thursday) and UK monthly GDP data (Friday).

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.149	-0.005
OBL 2.2 10/30	2.466	-0.010
DBR 2.6 08/35	2.852	-0.008
UKT 3½ 03/27	3.784	-0.016
UKT 4% 03/30	3.978	-0.015
UKT 4½ 03/35	4.512	-0.014

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

Source: Bloomberg

Euro area

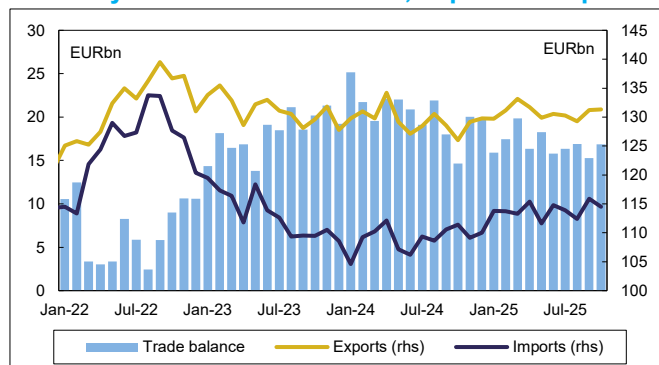
German goods trade surplus matched 5-month high in October, but export growth paused

After figures over recent days reported solid growth in [manufacturing output](#) and [new orders](#) in October, today's German goods trade data were somewhat underwhelming. Most notably, growth in the value of exports largely stalled (0.1%M/M) at the start of Q4. Nevertheless, given the strength of the pickup in September, this still left goods exports almost 1% above the Q3 average. Encouragingly, shipments to the rest of Europe rose to a three-year high, almost 3% above the Q3 level, suggesting ongoing recovery in economic momentum in the region. And with the value of imports declining more than 1% in October, the German goods trade surplus reversed the drop in September, rising €1.5bn to €16.9bn, matching the largest since May. So, at face value, today's figures suggest that net trade gave welcome support to German GDP growth at the start of the fourth quarter, having provided a non-negligible drag in all but one of the past seven quarters.

Demand for German goods from US and China maintains downtrend

Despite the likelihood of a positive contribution to growth in Q4, surveys suggest that the outlook for German goods trade remains subject to downside risks. While a tentative recovery in new factory orders from the rest of Europe should provide further support over the near term, demand for German goods from further afield remains extremely subdued. Some of that weakness relates to the new barriers to trade with the US. After a temporary rebound at the end of Q3, shipments to the US (-7.8%M/M) were tracking more than 1% below the Q3 average and were still more than one fifth below the tariff-front-running peak in March. Meanwhile, given the highly competitive level of the yuan amid excess supply, the deterioration in the goods trade balance with China over the past decade also seems unlikely to abate anytime soon. Although they fell slightly in October, German imports from China have almost doubled over the past decade, with imports of cars up more than five-fold and imports of machinery equipment more than doubling too. At the same time, weak Chinese demand continues to weigh on shipments of German goods to China, which in October fell sharply (-5.8%M/M) to the lowest level in nine years. This left German goods exports to China almost one third below the pre-pandemic peak at the end of 2019. And with car shipments to that country having roughly halved and machinery exports down almost one fifth over the past six years, the large bilateral surpluses in those sectors enjoyed by Germany a decade ago have largely evaporated. Overall, Germany's cumulative goods trade deficit with China over the first ten months of the year rose to €73bn, some 40% larger than over the same period last year and on track for a full-year record high this year, a milestone likely to increase calls for a political response at both national and EU levels.

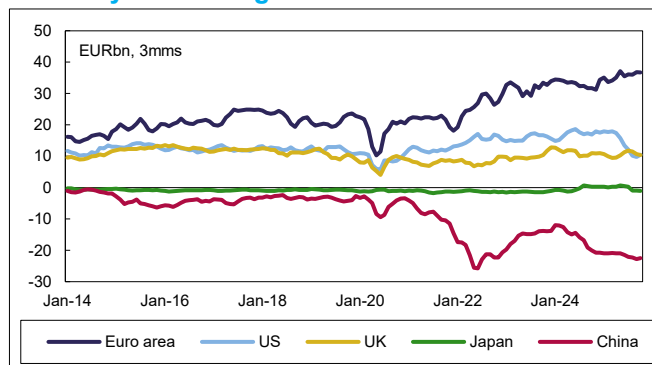
Germany: Goods trade balance, exports & imports*



*Seasonally adjusted values.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Bilateral goods trade balances*



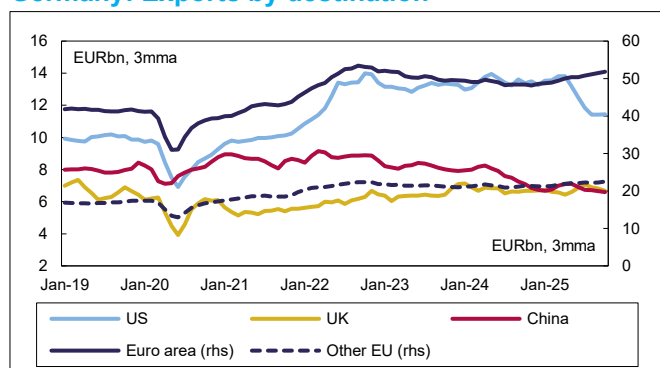
*Seasonally adjusted balance.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming few days in the euro area

The economic dataflow from the euro area is set to be relatively thin over the remainder of the week. November's final inflation prints for Germany, France and Spain (due Friday) will provide most interest, providing insights ahead of next Wednesday's final euro area release. While the flash data suggested that inflation in Spain softened a touch (3.1%Y/Y) and held surprisingly steady in France (0.8%Y/Y), German inflation notably exceeded expectations, with the euro area-relevant HICP rate rising 0.3ppt to 2.6%Y/Y. That, however, also contrasted with Germany's national CPI measure, which moved sideways at 2.3%Y/Y. While energy inflation contributed slightly more to headline inflation, the divergence between the German HICP and CPI rates would suggest that certain services items, including package holidays, might have also picked up. Beyond the inflation data, Wednesday's Italian industrial production data for October will contribute to forecasts of next week's euro area release (due Monday). Beyond a serious deterioration in Italy, euro area IP looks bound to have started Q4 on a stronger footing, with growth in Germany (1.4%M/M) and another firm month in Ireland (4%M/M) pointing towards an increase of about 1%M/M. Finally, comments from ECB President Lagarde at a Financial Times conference in London on Wednesday (just before the ECB's pre-Governing Council blackout period) may also be of interest.

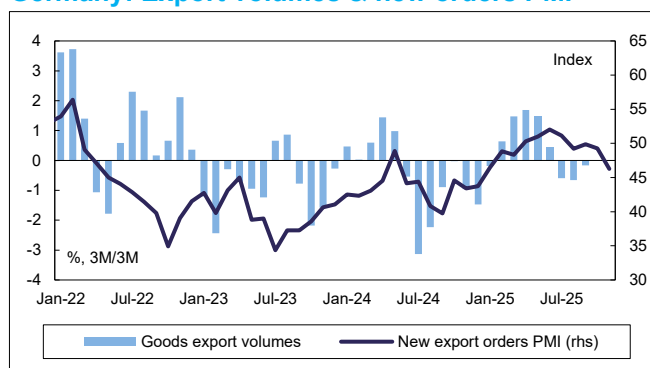
Germany: Exports by destination*



*Seasonally adjusted values.

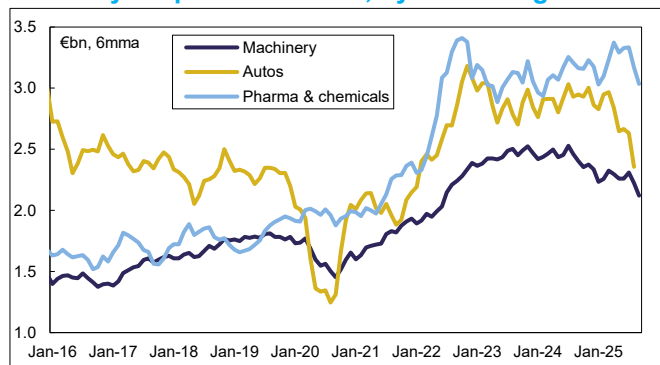
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Export volumes & new orders PMI



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

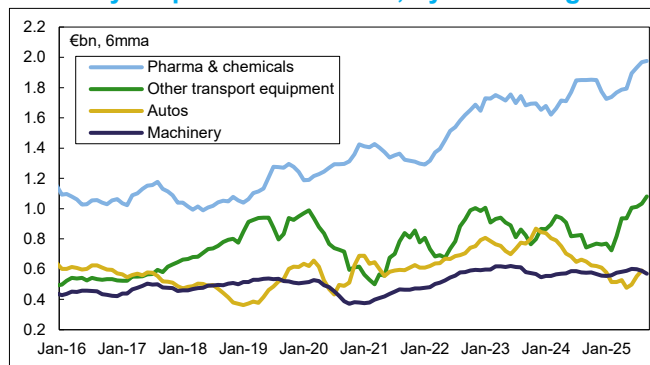
Germany: Exports to the US, by selected good*



*Non-seasonally adjusted values.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

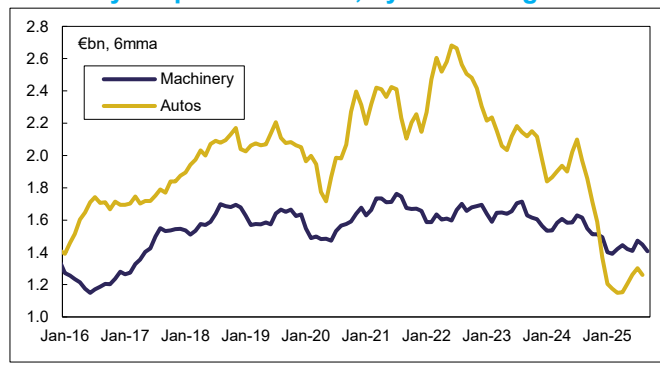
Germany: Imports from the US, by selected good*



*Non-seasonally adjusted values.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

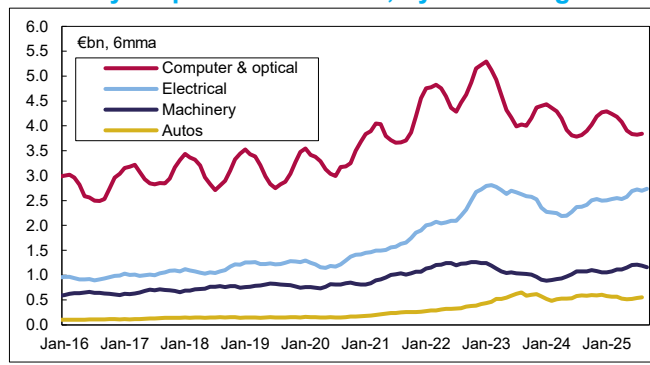
Germany: Exports to China, by selected good*



*Non-seasonally adjusted values.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Imports from China, by selected good*



*Non-seasonally adjusted values.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

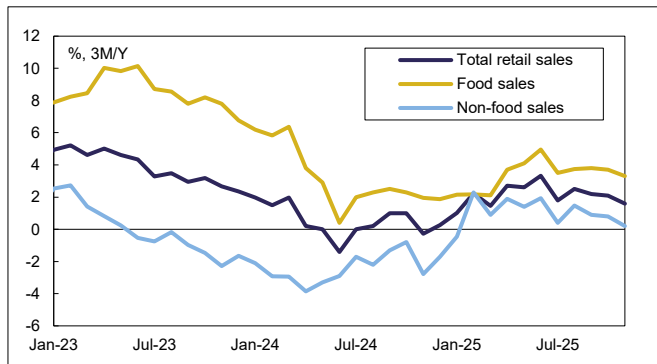
BRC survey flags disappointing Black Friday sales, pointing to weaker consumption growth in Q4

While household consumption growth ticked up slightly in Q3 (to 0.2%Q/Q), it appears to have weakened again in Q4. According to the official ONS data, retail sales in October fell the most in five months, dropping a chunky 1.0%M/M in volume terms. And judging from today's BRC retail sales survey, they remained subdued in November. On a like-for-like basis, growth in the value of retail sales slowed 0.3ppt to a six-month low of 1.2%Y/Y, less than half the median forecast on the Bloomberg survey. Deflated by the BRC's retail price index, like-for-like sales volume growth slowed on a three-month basis by 0.4ppt to 0.6%3M/Y, the weakest rate in 12 months. Food sales on the same basis remained in reverse, contracting by 0.3%3M/Y to match the weakest rate since June 2024. And like-for-like non-food sales grew 0.6%3M/Y, the weakest since December. So, while the share of non-food sales conducted online reportedly rose to its highest level since 2022, and homeware and upholstery fared well, Black Friday appears to have been a damp squib, with clothes sales particularly subdued. Uncertainty surrounding tax hikes in the Government's end-November Budget announcement, as well as inclement weather, likely played a role. But with consumer confidence still subdued, precautionary saving is likely to remain elevated and household spending is likely to remain broadly stagnant. The resulting rise in economic slack will weigh further on underlying inflation over coming quarters, in our view meriting further monetary easing next week and at least twice more next year.

The coming few days in the UK

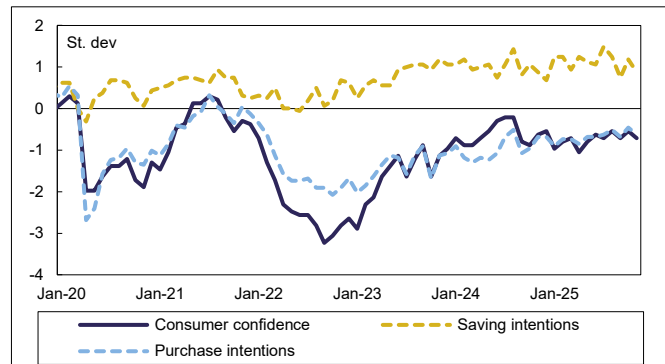
With the economic dataflow also taking a backseat in the UK for a couple of days, attention should turn to Friday and the release of October's monthly GDP report. That release will provide an indication as to how economic activity responded after a second-monthly output contraction in the past three. Of course, September's drop (-0.1%M/M) was principally driven by disruption at Jaguar Land Rover, with the near-30%M/M drop in car production precipitating a drop in overall industrial production (-2%M/M) to a 2½-year low. With production lines at JLR having gradually restarted, a rebound in IP in October looks assured. But its phased-in nature implies only a partial rebound, whilst the UK's auto manufacturers association (SMMT) cautioned that output in the sector was still significantly down at the start of Q4. Despite an improvement signalled by the PMIs, weak retail sales volumes in October (-1%M/M) pose a headwind for services output, and some payback might be expected after September's special events such as the Women's Rugby World Cup. Surveys also suggested that construction activity remained weak. So, like most analysts, we expect Friday's data to report a muted recovery in GDP at the start of Q4. Growth of 0.2%M/M – at the upper end of the range of forecasts – would leave output growth flat on a three-month basis. Ahead of the GDP release, the RICS housing market survey (on Thursday) will provide an update on housing market activity in November. Rather predictably, we expect surveyors to have been downbeat amid the pre-Budget angst.

UK: BRC like-for-like retail sales values



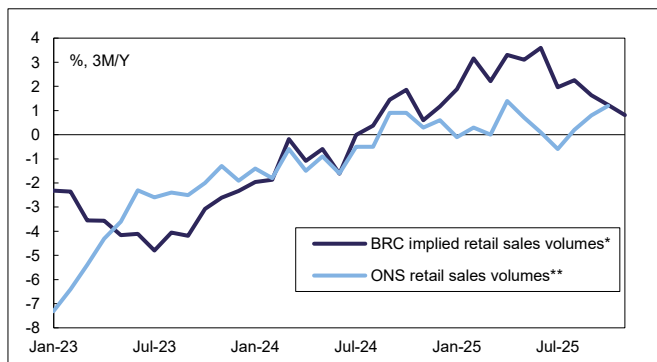
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence indices



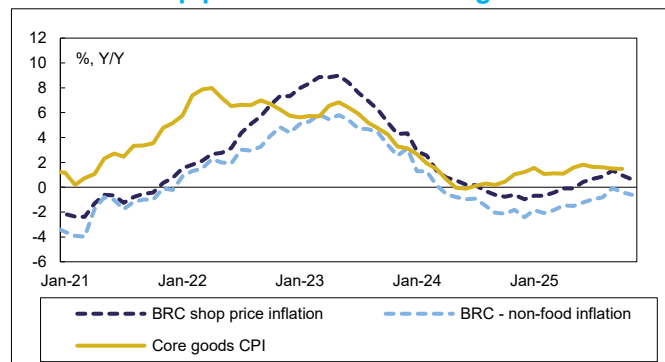
Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes



*Deflated by the BRC shop price index. **Sales volumes excluding auto fuel stores. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC shop price inflation & core goods CPI



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
Germany 	Trade balance €bn	Oct	16.9	15.7	15.3	-
UK 	BRC retail monitor – like-for-like sales Y/Y%	Nov	1.2	2.5	1.5	-


Auctions

Country	Auction
UK 	sold £750mn of 4.25% 2032 bonds at an average yield of 4.109%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Italy 	09.00	Industrial production M/M% (Y/Y%)	Oct	-0.2 (0.3)	2.8 (1.5)


Auctions and events

Euro area 	10.55	ECB President Lagarde speaks at the FT's Global Boardroom conference, London
UK 	10.00	Auction: to sell £4.5bn of 4.75% 2035 bonds





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
UK 	00.01	RICS house price balance %	Nov	-21	-19











Auctions and events

Italy 	10.00	Auction: to sell €3bn of 2.35% 2029 bonds
	10.00	Auction: to sell €1bn of 3% 2029 bonds
	10.00	Auction: to sell €1bn of 2.7% 2030 bonds
UK 	09.50	BoE Governor Bailey speaks on financial stability in pre-recorded fireside chat for the FT's Global Boardroom conference

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany 	07.00	Final HICP (CPI) Y/Y%	Nov	<u>2.6 (2.3)</u>	2.3 (2.3)
France 	07.45	Final HICP (CPI) Y/Y%	Nov	<u>0.8 (0.9)</u>	0.8 (0.9)
	07.45	Final wages Q/Q%	Q3	<u>0.3</u>	0.5
Spain 	08.00	Final HICP (CPI) Y/Y%	Nov	<u>3.1 (3.0)</u>	3.2 (3.1)
UK 	07.00	Monthly GDP M/M% (3M/3M%)	Oct	0.1 (0.0)	-0.1 (0.1)
	07.00	Services output M/M% (3M/3M%)	Oct	0.0 (0.1)	0.2 (0.2)
	07.00	Industrial production M/M% (Y/Y%)	Oct	1.0 (-1.2)	-2.0 (-2.5)
	07.00	Construction output M/M% (Y/Y%)	Oct	-0.1 (1.5)	0.2 (1.3)
	07.00	Trade (goods trade) balance £bn	Oct	-1.2 (-19.1)	-1.1 (-18.9)
	09.30	BoE/Ipsos inflation attitudes survey – 1Y ahead CPI Y/Y%	Q4	-	3.6

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next Euro wrap-up will be published on Friday 12 December 2025

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