

Euro wrap-up

Overview

- After Friday's euro area bank lending data signalled ongoing moderate economic expansion in Q4, Bunds followed the global trend higher today on a quiet day for euro area economic news.
- Gilts also made gains while UK bank lending figures showed that mortgage applications fell but consumer credit and business loans grew firmly in November.
- Tuesday will bring flash German and French inflation data for December as well as the final services and composite PMIs for the same month.

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Daily bond market movements		
Bond	Yield	Change
BKO 2 12/27	2.128	-0.008
OBL 2.2 10/30	2.456	-0.018
DBR 2.6 08/35	2.873	-0.025
UKT 3 1/4 03/27	3.713	-0.007
UKT 4 1/4 03/30	3.940	-0.017
UKT 4 1/2 03/35	4.509	-0.025

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

Euro area

Growth in lending to NFCs signals ongoing moderate expansion in Q4

As the euro area welcomed Bulgaria as its 21st member state, the first notable new data of the New Year reported a further pickup in bank lending growth consistent with moderate economic expansion. While interest rates on new loans have levelled off since June when the ECB ended its easing cycle, the annual growth rates in the stocks of lending to non-financial corporations (NFCs) and households in November picked up to the firmest since the first half of 2023. Those rates, however, remain somewhat below their respective long-run averages to suggest that monetary policy is likely broadly neutral rather than accommodative. Indeed, while annual growth in the stock of loans to NFCs rose 0.2ppt to 3.1%Y/Y, the net flow picked up only slightly from October's five-month low to leave the three-month flow the weakest in a year. 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 merely unchanged at 3.0%Y/Y as the monthly flow slowed to a five-month low.

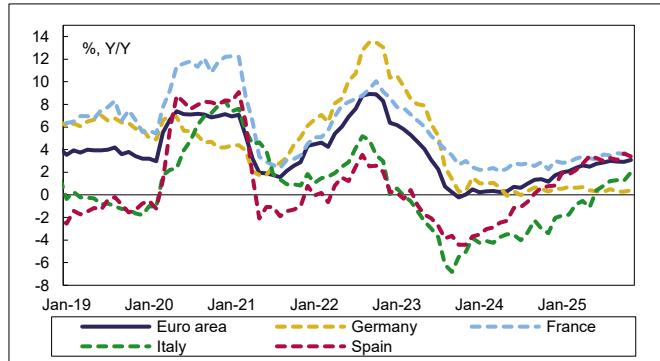
Greater vigour in mortgage lending & consumer credit

Contrasting the softer flow in lending to NFCs, the monthly flow of new lending to households was the strongest since July 2022, with the three-month flow also the best in more than three years. With the housing market having turned for the better amid improved affordability and a resilient labour market, the flow of new mortgages also matched the firmest since mid-2022. That pushed the respective annual rate up to 2.9%Y/Y, the strongest since April 2023. Even more striking, the monthly flow of consumer credit was the strongest on the series dating back more than a decade. And that pushed the respective annual growth rate to 5.5%Y/Y, the strongest since the onset of the Covid pandemic in February 2020, which should have supported a ninth successive quarter of positive household spending growth in Q4.

The day ahead in the euro area

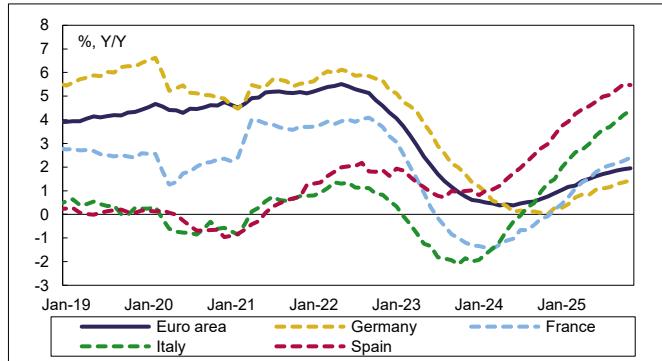
Tomorrow's preliminary December inflation estimates for Germany and France will provide the prelude to Wednesday's aggregate euro area release. The median forecasts on the Bloomberg survey expect the EU-harmonised HICP measures to soften a touch in both cases. In Germany, that partly reflects expectations that the pressures in certain volatile services components which boosted November's reading will prove temporary. But it predominantly reflects the steeper drop in auto fuel and heating oil prices last month. Indeed, most of the 0.2ppt softening of Spanish inflation to 3.0%Y/Y (announced last week) was attributed to lower fuel prices, and to a lesser extent recreational services components. The day ahead in the euro area will also bring December's final euro area services and composite PMIs. The euro area composite activity PMI remained consistent with an acceleration in GDP growth in Q4, albeit surprising slightly to the downside. Owing to seasonal

Euro area: Loans to non-financial corporations



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to households



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

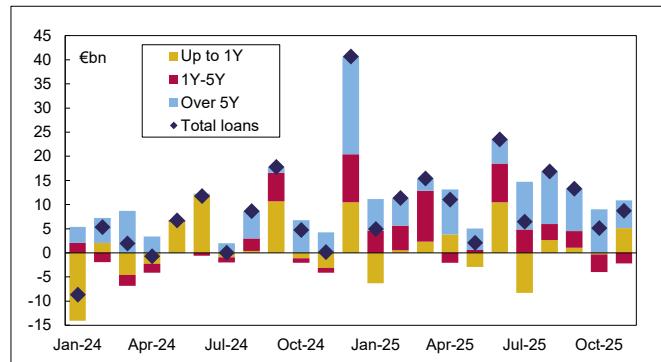
variation, it may be unsurprising to see atypically large revisions in the final survey. And last week's manufacturing PMIs suggest that those risks could be to the downside. With a steeper contraction reported in Germany – where the output index fell to 48.3, its lowest level since January and 1.1pts below the flash – and Italy and Spain also slipping below the 50-threshold, euro area manufacturing output reportedly contracted for the first month in ten. Even as services will provide some offset, those revisions undoubtably add a downside risk to the final composite reading. Aside from the data, Banque de France Governor Villeroy will resume the flow of notable ECB public speakers this year.

UK

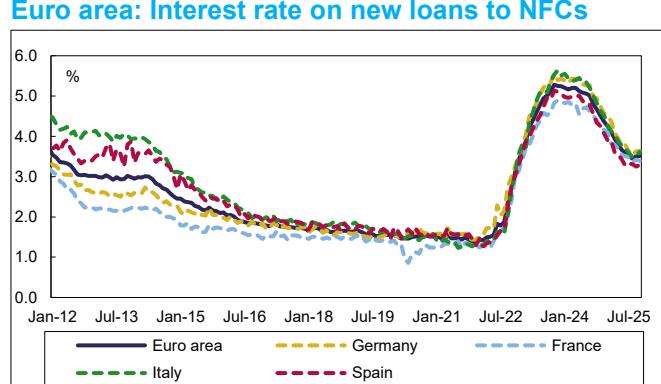
Drop in new mortgage approvals in November should prove temporary

Fiscal policy announcements often have a significant impact on the UK housing market, as the timing of transactions is often influenced by legislation or speculation of tax changes affecting the sector. That appears again to have been the case at the end of last year, as many households brought forward transactions ahead of the government's Budget announcements in late November for fear of new revenue-raising measures. The monthly flow of new secured loans to households (£4.5bn) was broadly in line with the average of the past six months. But that remained almost £1bn above the pre-pandemic five-year average and pushed the annual growth rate up to 3.3%Y/Y, the highest since the start of 2023. At the same time, however, the number of new mortgage approvals, which provides a guide to future lending flows, edged down to a five-month low

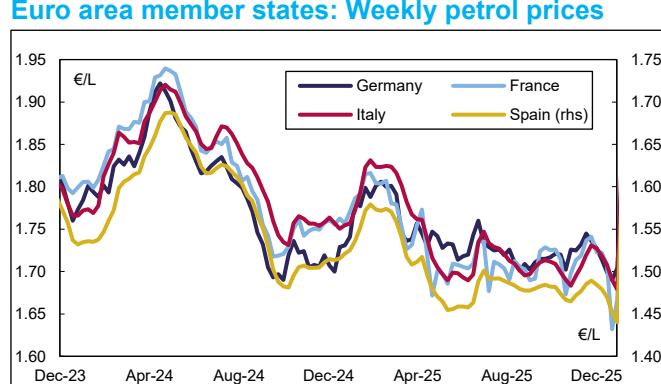
Euro area: Flow of new loans to NFCs



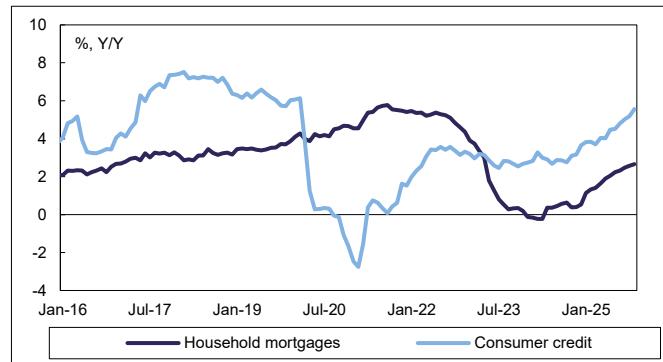
Euro area: Interest rate on new loans to NFCs



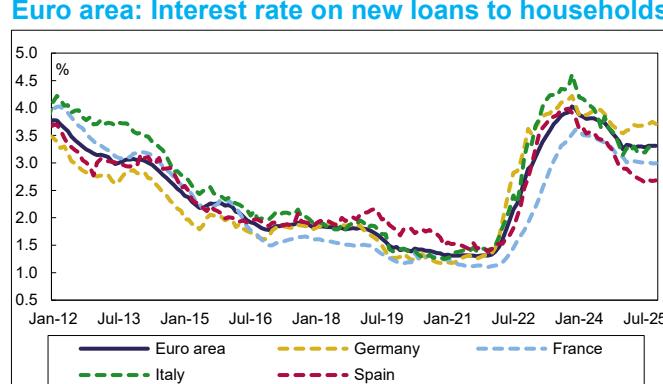
Euro area member states: Weekly petrol prices



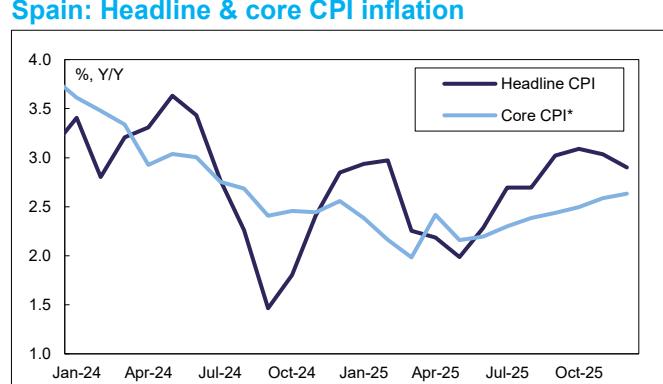
Euro area: Loans to households



Euro area: Interest rate on new loans to households



Spain: Headline & core CPI inflation



(64.5k), tallying with the weaker buyer appetite flagged by the RICS residential survey. Moreover, the Nationwide housing market report also suggested a disappointing end to the year, as the first decline in house prices in four months (-0.4%M/M) pushed the annual growth rate in December down more than 1ppt to 0.6%Y/Y, the softest since April 2024. But the slowdown was exaggerated in part by an above-average increase in prices a year earlier. And we suspect that the drop in mortgage demand in November might also reflect increased expectations that interest rates have further to fall. With house price growth well below the rate of labour earnings growth, housing affordability for first time buyers is now at a 12-year low. And with the BoE likely to cut rates further over coming months, we expect mortgage demand and house price inflation to pick up this year.

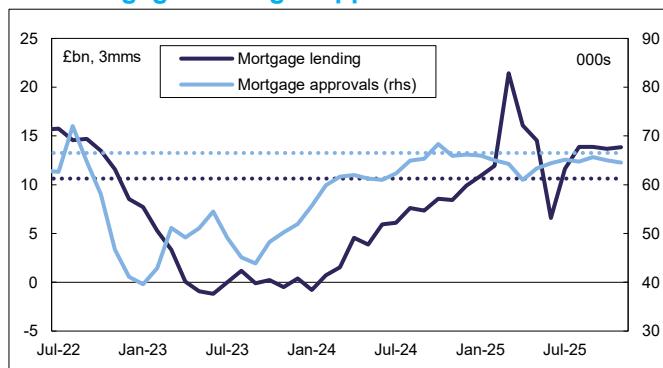
Strongest consumer credit flow in 2 years, while business lending returns to growth

UK retail sales data disappointed in November, declining for a second successive month (-0.1%M/M) to suggest a negligible boost from Black Friday discounting that month and supporting our view that GDP growth contracted slightly in Q4. But, while not necessarily suggestive of stronger spending growth, today's lending figures showed a much stronger-than-expected pickup in consumer credit that month, with the net increase (£2.1bn) the largest for two years and the cumulative rise in the three months to November (£5.3bn) the highest for eight years. This in part reflected a further pickup in credit card lending, for which growth in the outstanding amount exceeded 12%Y/Y for the first time since January 2024, while growth in other consumer credit (such as car finance) rose above 6%Y/Y, a 13-month high. Meanwhile, having made net repayments in September and October, businesses also appeared more content to take on additional borrowing in November, with the monthly net increase in new loans of £6.3bn the largest since May. This reflected a marked improvement in the flow of credit to large non-financial firms, which pushed the annual growth rate up 0.3ppt to 7.2%Y/Y, albeit still below the average of almost 8%Y/Y in the previous six months. And while the net increase in lending to SMEs was significantly smaller (£0.3bn) this still marked an eleventh successive rise, taking the annual growth rate to 1.9%Y/Y, the highest since 2016.

The day ahead in the UK

As in the euro area, December's final UK manufacturing PMI was marked down slightly last week. The headline index was revised down 0.8pt to 50.6, led by an equivalent fall in manufacturing output which will pose a downside risk to the services-led improvement in December's composite reading. Admittedly, at 51.0, the manufacturing output PMI remains consistent with expansion, and still marks an improvement from November's largely stagnant reading. Moreover, that leaves the average manufacturing output index over Q4 (also at 51.0) some 1.8pts above its level in the previous quarter, consistent with some positive payback for September's cyberattack at JLR and an expected boost to GDP from production. Meanwhile, an update from the BRC's measure of shop price inflation will provide an earlier view as to price developments over the festive period, ahead of December's official inflation report on January 21.

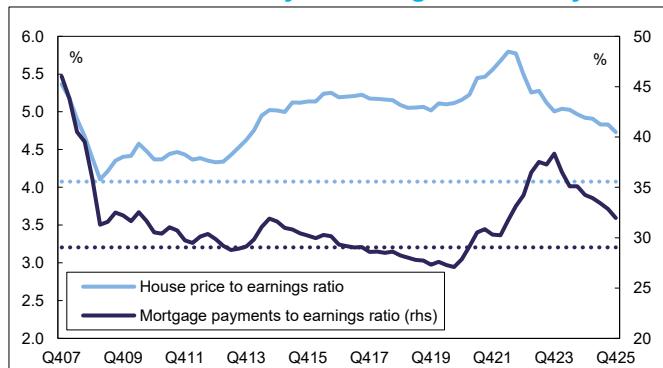
UK: Mortgage lending & approvals*



*Dotted lines reflect pre-pandemic five-year average.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

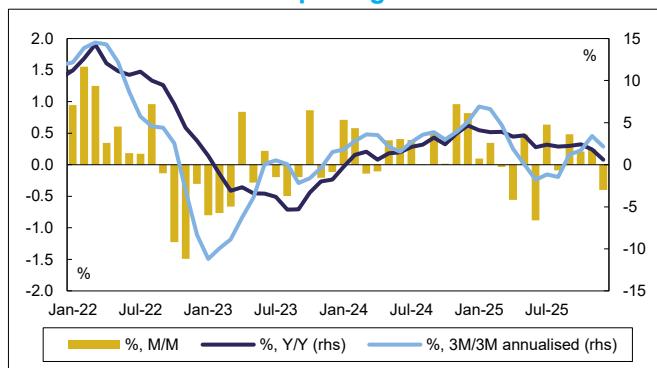
UK: Nationwide survey - housing affordability*



*For first-time buyers. Dotted lines reflect average since 1995.

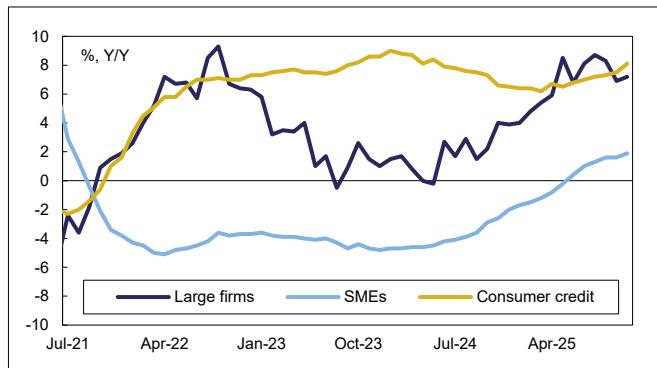
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Nationwide house price growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Loans to consumers & businesses



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
Spain	 Unemployment (net employment) change 000s	Dec	-16.3 (33.1)	-	-18.8 (44.7)	-
UK	 Net consumer credit £bn (Y/Y%)	Nov	2.1 (8.1)	-	1.1 (7.2)	1.7 (7.5)
	 Net mortgage lending £bn (mortgage approvals 000s)	Nov	4.5 (64.5)	4.1 (64.0)	4.3 (65.0)	4.2 (-)

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Friday 2 January results

Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Nov	3.0	2.7	2.8	-
	 Final manufacturing PMI	Dec	48.8	<u>49.2</u>	49.6	-
Germany	 Final manufacturing PMI	Dec	47.0	<u>47.7</u>	48.2	-
France	 Final manufacturing PMI	Dec	50.7	<u>50.6</u>	47.8	-
Italy	 Manufacturing PMI	Dec	47.9	50.1	50.4	-
Spain	 Manufacturing PMI	Dec	49.6	51.2	1.3 (1.2)	-
UK	 Final manufacturing PMI	Dec	50.6	<u>51.2</u>	50.2	-
	 Nationwide house prices M/M% (Y/Y%)	Dec	-0.4 (0.6)	0.1 (1.2)	0.3 (1.8)	-

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/ <u>Daiwa forecast</u>	Previous
Euro area	 09.00	Final composite (services) PMI	Dec	<u>51.9 (52.6)</u>	52.8 (53.6)
Germany	 08.55	Final composite (services) PMI	Dec	<u>51.5 (52.6)</u>	52.4 (53.1)
	 13.00	Preliminary HICP (CPI) Y/Y%	Dec	2.2 (2.1)	2.6 (2.3)
France	 07.45	Preliminary HICP (CPI) Y/Y%	Dec	0.7 (0.9)	0.8 (0.9)
	 08.50	Final composite (services) PMI	Dec	<u>51.5 (52.6)</u>	52.4 (53.1)
Italy	 08.45	Composite (services) PMI	Dec	53.0 (54.1)	53.8 (55.0)
Spain	 08.15	Composite (services) PMI	Dec	54.3 (54.8)	55.1 (55.6)
UK	 00.01	BRC shop price index Y/Y%	Dec	0.6	0.6
	 09.00	New car registrations Y/Y%	Dec	-	-1.6
	 09.30	Final composite (services) PMI	Dec	<u>52.1 (52.1)</u>	51.2 (51.3)

Auctions and events

France	 09.00	ECB Governing Council & BdF Governor Villeroy gives opening remarks at conference on the international monetary system
Germany	 10.30	Auction: to sell up to €6bn of 2% 2027 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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