BEA 東亞銀行

# Economic Research

December 2021

*Market Monitor – Eurozone*

# Fresh Covid Outbreaks Limit Economic Recovery


## Surge of infections undermines economic momentum

Eurozone retail sales decreased by 0.3% month on month in September, down from the 1% monthly growth seen in August. Among the countries in the eurozone, Germany led the decrease with a monthly drop of 2.5%. Meanwhile, the preliminary reading of the eurozone services purchasing managers' index (PMI) was reported to be 56.6 in November, up from 54.6 in October. The recent rebound in confirmed Covid-19 cases has prompted a reintroduction of lockdowns in some cities, while soaring prices will make consumers more cautious and put further pressure on retail sales.

Industrial production contracted further, falling by 0.2% monthly in September, albeit less than the 1.7% drop seen in August. The weakest area was the production of capital goods, which saw a 0.7% monthly dip as a result of the continued energy crunch and supply chain bottlenecks. On the external front, demand for eurozone exports remained subdued. Exports decreased by 0.4% month on month in September, while imports increased by 1.5%. The manufacturing PMI, on the other hand, picked up unexpectedly. The preliminary reading of the manufacturing PMI was 58.6 in November, slightly higher than 58.3 in October.

Eurozone inflation was estimated to be 4.9% in November, up from 4.1% in October. Due to supply constraints of natural gas, energy prices surged by 27.4% year on year in November.

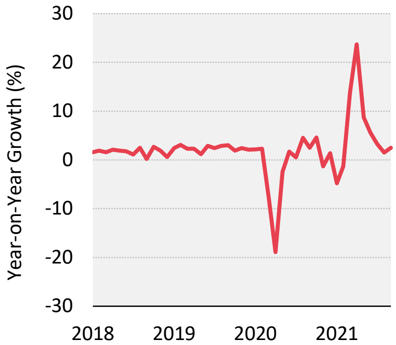
In the period between end-October and end-November, the 7-day rolling average of confirmed cases in the eurozone notably jumped from around 72,000 to 188,000. In the wake of a marked rebound of confirmed Covid-19 infections in the eurozone, some governments implemented tougher vaccination requirements and even reintroduced lockdown measures. In France, President Emmanuel Macron has announced that French people aged over 65 are required to get Covid-19 booster jabs before they can dine out or take long-distance journeys from mid-December onwards.

**Economic activity faces challenges of rebounding numbers of confirmed cases and a reintroduction of lockdowns.**

**Carbon prices rise alongside COP26 climate summit talks about strengthening the global carbon market.**

**New coronavirus variant prompt fears in the stock market.**

**Eurozone Retail Sales**




Source: Bloomberg, data as of 5/11/2021

# Economic Research

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The prime minister of the Netherlands' caretaker government announced in mid-November that the country would enter a strict three-week lockdown in a bid to contain Covid-19 infection rates. Measures include the closure of bars, restaurants, and essential shops by 8 p.m. and of non-essential shops by 6 p.m. The rebound of Covid-19 infection rates and the reintroduction of lockdown measures are expected to put pressure on the eurozone's economic recovery.

## Carbon prices rise against backdrop of COP26 climate summit

The COP26 UN Climate Conference was held in early November. During the conference, the EU partnered with the US to launch the Global Methane Pledge, with initatives which over 100 countries have signed up to. The pledge aims to slash collective methane emissions by at least 30% by 2030 from the levels of 2020.

With an increasing expectation of decarbonisation through strengthened carbon markets, European carbon prices have soared since early November. Between end-October and end-November, European carbon prices increased by 25.2%. Looking ahead, rising carbon prices will encourage companies to transition toward a greener energy mix, but the increase may also imply higher energy costs and inflationary pressure globally.

## New coronavirus variant hits the European stocks

From early to mid-November, the European equity market has extended its rally with stronger investor confidence, fuelled by positive earnings reports and dovish central bank policy. European Central Bank (ECB) president Christine Lagarde reiterated her view that an interest rate hike in 2022 is unlikely and that inflation is expected to moderate next year from its currently high level. A dovish ECB monetary policy stance now seems more likely than in previous months.

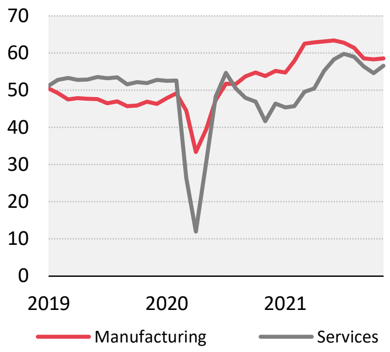
Nevertheless, in late November, the emergence of coronavirus variant Omicron added fears to the market about the economic prospects. The soaring market fears caused the stock market to slump.

The pan-European Stoxx 600 Index fell by 2.6% between end-October and end-November. During the same period, the German DAX Index dropped by 3.8% while the French CAC Index decreased by 1.6%.

## Government bond yields decline

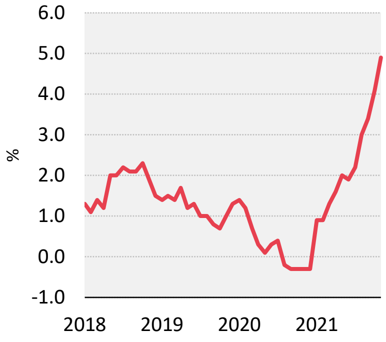
The new round of Covid-19 outbreaks in the eurozone and the increasing risk of the spread of Omicron variant have posed the threats to the economic recovery, with some member states reintroducing lockdowns to contain the spread of the virus. The heightened economic risks from Covid-19 outbreaks has accelerated demand for eurozone government bonds as safe assets, whose yields are inversely related to prices. Between end-October and end-November, German 10-year government bond yields decreased from -0.106% to -0.349%.

**Purchasing Managers' Index**



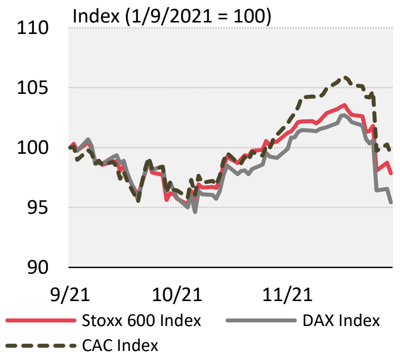

Source: Bloomberg, data as of 23/11/2021

**Eurozone Inflation**



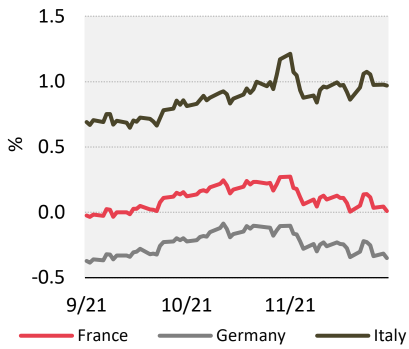

Source: Bloomberg, data as of 30/11/2021

**Stock Market Indices**




Source: Bloomberg, data as of 30/11/2021

**10-Year Government Bond Yield**



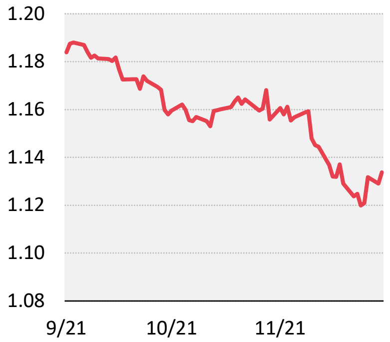

Source: Bloomberg, data of at 30/11/2021

On 30th November, the extra yield demanded by investors to hold 10-year Italian bonds instead of their German equivalents was about 1.32 percentage points, slightly up from the 1.28 percentage points seen at end-October.

## Euro depreciates against stronger US dollar

The euro depreciated by a significant 1.90% against the US dollar in the period between the end of October and end-November, trading at USD 1.1338. The higher-than-expected US consumer price readings in October contributed to the strength of the US dollar, weakening the euro. Against the backdrop of a tapering of asset purchase programme and the solidifying expectation of earlier rate hikes in the US, while the ECB's dovish monetary policy is expected to remain in place, the euro is under pressure to drop further in the near term.

**Euro against USD**




Source: Bloomberg, data as of 30/11/2021

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