

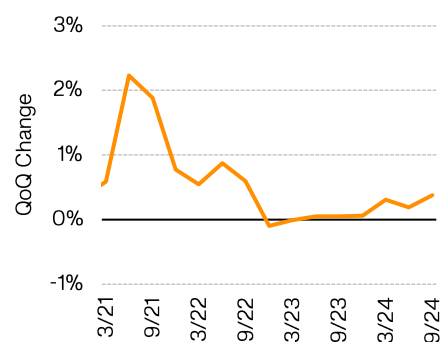
Market Monitor – Europe
Growth outlook stays subdued in early Q4


- The eurozone economy unexpectedly accelerated in Q3, possibly buoyed by one-off events like the Olympic Games.
- Eurozone headline inflation edged higher as low base effects on energy prices faded, whereas UK inflation fell below 2%.
- The ECB made back-to-back cuts in policy rates for the first time since 2011, while the BoE also cut its policy rate by 25 basis points.

Eurozone economy unexpectedly accelerated in Q3

Strong eurozone economic growth was possibly buoyed by a one-off Olympic boost in Q3. The eurozone economy expanded for four straight quarters in Q3, with real GDP rising by 0.4% quarter-on-quarter (QoQ), well ahead of the market consensus of 0.2% growth, and marking the fastest growth rate in the past two years. On a year-on-year (YoY) basis, the eurozone economy posted stronger growth of 0.9% in Q3 2024, the fastest pace in the last six quarters.

However, this strong growth may be supported by the Olympic effects, with France's GDP growth up notably to 0.4% QoQ (1.3% YoY) in Q3. Germany, the largest European economy, also surprisingly recorded 0.2% growth, driven by government and household spending. However, the sluggish manufacturing sector in Germany, as evidenced by uninspiring manufacturing Purchasing Managers' Index (PMI) data, could cause Germany's growth to slow in Q4. Meanwhile, Ireland, which tends to record volatile GDP figures due to its high exposure to international corporations, recorded a 2.0% QoQ GDP growth in Q3, the best among eurozone members. Even though the ECB's rate cuts helped support a pickup in credit growth in Q3, recent business surveys were largely mixed, indicating a stagnant outlook. Overall, business confidence remains subdued, and the eurozone economy could see weaker growth when the one-off boost subsides.

Eurozone Economic Growth


Source: CEIC

Economic Research

The UK economy returned to expansion in August. In August, the UK GDP grew by 0.2% month-on-month (MoM), after seeing no growth in both June and July, matching market consensus. While the monthly readings for June and July remained unchanged, the GDP growth rates for April and May were revised down by 0.1 and 0.2 percentage points (pps), respectively, raising concerns that growth momentum in Q2 may have been milder than previously expected. Besides, the UK business activities slowed down for two consecutive months, with its composite, manufacturing and services PMIs in October all declining by 0.8, 1.6, and 0.4 pps to 51.8, 49.9 and 52.0, respectively.

The UK Autumn Budget plans to raise taxes substantially. The UK Autumn Budget was announced in late-October, with a target to increase taxes by GBP 40 billion per annum. The UK government seeks to address a shortfall in public finances by raising taxes on high-income earners. Key changes include: first, capital gain taxes for most assets are proposed to be increased to 18% from 10% at the lower rate and to 24% from 20% at the higher rate, depending on the taxpayer's status; second, the non-domiciled individual (non-dom) tax regime will be abolished. Non-doms, whose permanent home (domicile) is outside the UK, will soon need to pay tax on their foreign income and gains, regardless of their domicile status; third, the National Insurance (NI) contribution will be hiked. Specially, employers' NI contributions will be raised by 1.2 pps to 15%; fourth, the Stamp Duty Land Tax will be raised from 3% to 5% for individuals buying second homes.

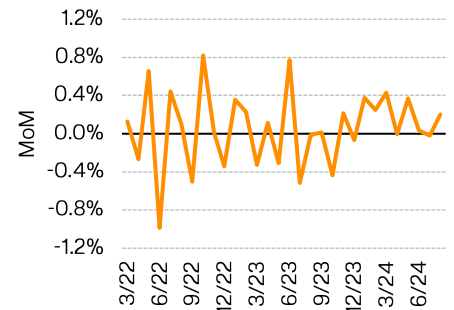
Inflation stayed near policy targets

The eurozone headline inflation edged higher as low base effects faded. In October, the eurozone headline inflation increased by 0.3 pps to 2.0% YoY, while core CPI inflation stayed unchanged at 2.7%. Both readings were slightly higher than market consensus. The increase in headline inflation was mainly due to fading low base effects of energy costs. Specifically, the declines in energy costs narrowed from 6.1% YoY in September to 4.6% in October. Besides, services inflation, which remains a key metric influencing further disinflation progress, stayed unchanged at a relatively high level of 3.9% YoY. The trajectory of services inflation and the transmission of wage growth are expected to remain the major factors influencing the disinflation progress in the eurozone.

UK inflation fell below 2% for the first time in more than 3 years. In September, UK headline and core CPI inflation decelerated notably by 0.5 pps and 0.4 pps to 1.7% YoY and 3.2%, respectively. Both were lower than market consensus, with the headline inflation falling below the Bank of England's (BoE) target of 2%. On a MoM basis, both headline and core CPI decelerated by 0.3 pps to 0.0% and 0.1% in September, respectively. Services inflation also slowed but remained high at 4.9% YoY in September, compared to 5.6% in August. Meanwhile, growth of regular pay (excluding bonuses) slowed down to 4.9% YoY in the three months to August. However, the UK labour market remains tight as the unemployment rate fell to 4.0% in the three months to August. Overall, upside risks to underlying inflationary pressure in the UK should not be overlooked.

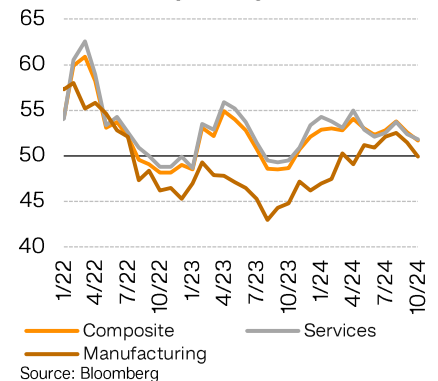
November 2024

Monthly UK Gross Domestic Product



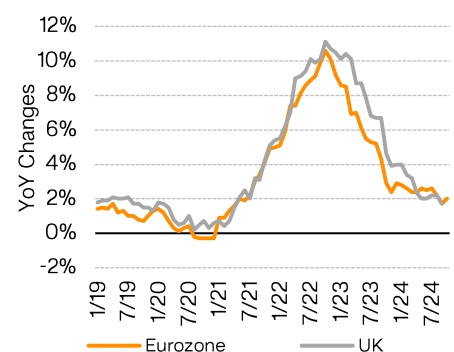
Source: CEIC

UK Purchasing Managers' Index



Source: Bloomberg

Inflation Rate



Source: CEIC

Economic Research

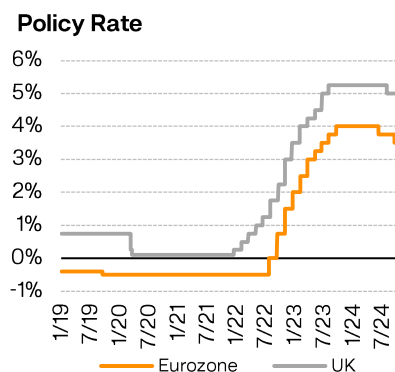
The ECB made back-to-back rate cuts for the first time since 2011. At the October monetary policy meeting, the European Central Bank (ECB) decided to lower its deposit facility rate by 25 basis points (bps) to 3.25%, marking the first back-to-back rate cuts since 2011. In a post meeting press conference, ECB President Lagarde indicated that the ECB is still in the process of "breaking the neck" of inflation, hinting that the fight against inflation is not yet completed. On economic growth, Lagarde added that the ECB "certainly do not see a recession" and remains hopeful to see a "soft landing". Slowing inflation and muted economic growth in the eurozone are likely to support another rate cut in the next monetary policy meeting in December.

The BoE cut rate again in November. The BoE's Monetary Policy Committee (MPC) voted 8-1 to cut the Bank Rate by 25 bps to 4.75%, aligning with expectations. Meanwhile, the BoE expects inflation rate to increase from 1.7% YoY in September 2024 to around 2.5% by the end of 2024 as the low base effects for energy costs steadily fade. This suggests another rate cut is unlikely before 2025. Going forward, BoE Governor Andrew Bailey said interest rate will "continue to fall gradually from here" but also cautioned that it cannot be cut "too quickly or by too much."

Stock markets declined on US election jitters

Election overhang sent stocks lower. In October, European stock markets edged lower as investors braced for uncertainty surrounding the US presidential election held in early November. Specifically, the UK FTSE 100 index, the German DAX index and the French CAC index slipped by 1.5%, 1.3% and 3.7% MoM in October, respectively. Besides, the Euro and British pound depreciated by 2.3% and 3.6% MoM, ending October at US\$ 1.0884 and US\$ 1.2899, respectively.

November 2024



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