WEEKLY ANALYSIS

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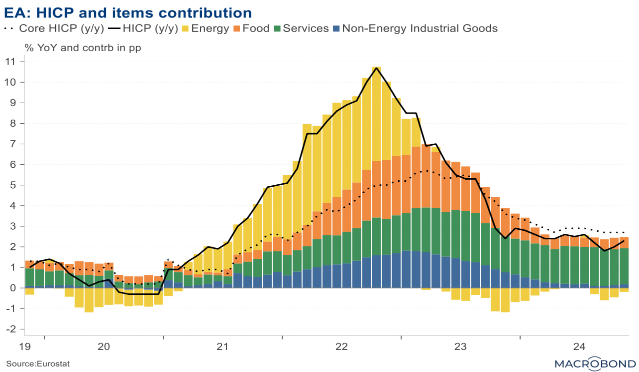
Ahead of the last meeting of the ECB's Governing Council this year

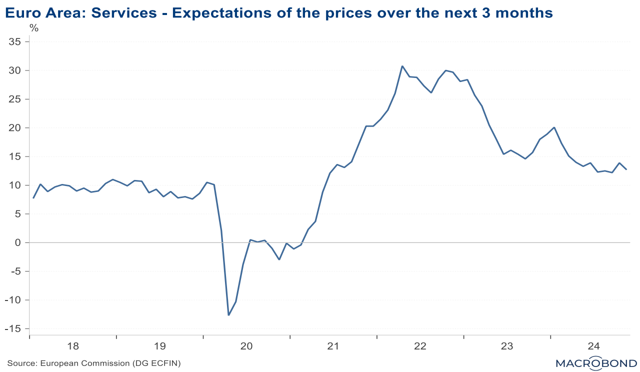
Expectation of a 25 b.p. interest rate cut prevails

- After the Governing Council of the European Central Bank cut key interest rates by an additional 25 basis points at its meeting in October, the last meeting of the year in Frankfurt awaits us on Thursday. And while the continuation of interest rate cuts is certain, until recently there was a clash of opinions over the extent, i.e. whether the ECB would reach for a cut of 25 or 50 basis points. Recently, however, expectations have prevailed towards 25 basis points, mostly influenced by the statements of some of the members of the Governing Council who are more in favour of a gradual reduction in interest rates. Ahead of another important decision of the ECB, we bring a brief overview of current economic trends in the euro area.

Acceleration of inflation in November was expected

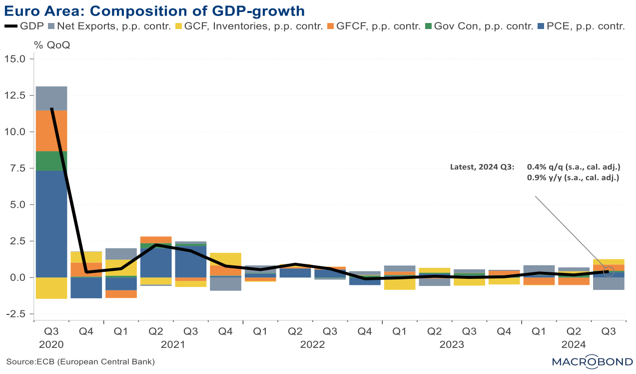
- According to Eurostat's flash estimate, inflation in the euro area accelerated to 2.3% y/y (-0.3% m/m) in November from 2.0% recorded in October, while core inflation (headline excluding energy, food, alcoholic and non-alcoholic beverages) remained unchanged at 2.7% (-0.6% m/m). The ECB's measure of core inflation – excluding energy and fresh food – accelerated slightly from 2.7% to 2.8%. The acceleration of the headline annual inflation rate was mostly driven by energy prices, which recorded a decline of -1.9% (+0.6% m/m) in November, significantly less than in October, when the decline was -4.6%. A slightly higher inflation rate of 0.7% compared to 0.6% in October was also recorded for industrial products excluding energy, while a slight decrease in the annual inflation rate was recorded for food (to 2.8% from 2.9% in October) and services (from 4.0% to 3.9%). While food prices increased by 0.3% m/m, prices of services fell by -0.9% with prices of industrial products unchanged. The described developments are in line with expectations and point to still robust movements in prices of services and core inflation, however, survey indicators point to easing of pressures.





- The latest round of surveys points to a slowdown in the euro area economy in the last quarter of this year. Let us recall, in the new estimate, Eurostat confirmed the growth of the gross domestic product by 0.4% compared to the previous quarter, which is an acceleration compared to the 0.2% posted in the second quarter. Positive contribution to growth came in equal proportions (of 0.4 p.p.) from personal consumption (+0.7% q/q), investment (+2.0%!) and changes in inventories. Growth of private consumption is the fastest recorded growth in the last eight consecutive quarters, and it is encouraging given that despite the growth in real incomes, private consumption has been subdued in the last two years, which ultimately also raised the saving rate in the euro area. The mentioned growth suggests that the saving rate in the observed quarter decreased from a high of 15.6% in the second quarter, but still remained at high levels compared to the pre-pandemic period. The strong growth in investments of the mentioned 2% can be almost entirely attributed to the (extremely volatile) component of intellectual property (20% of total investments), recording an increase of 14.8% compared to the previous quarter. At the same time, construction activity, which accounts for half of total investment, recorded a q/q decline of -0.1%, while investment in machinery and equipment fell by -1.8%. Simultaneously, total euro area exports recorded a decline of -0.8%, and surveys suggest a further decline in the level of export orders in manufacturing. Overall, judging by the deteriorating sentiment contained in a number of survey indicators released in November, it looks like growth in the third quarter was based on mostly one-off particularities, and that the last quarter of this year will bring a new slowdown. Namely, the IFO indicator suggests a stagnation of the German economy at the end of this year and the beginning of next year, and probably a very low growth rate of only 0.5% in 2025, after two consecutive years of decline. Data from Italy's ISTAT are mixed, but suggest a new, second month in a row, decline in consumer and business confidence with the exception of manufacturing and retail, in fact underlining negative risks similar to the rest of the euro area.

Personal consumption and investment drove growth in the third quarter



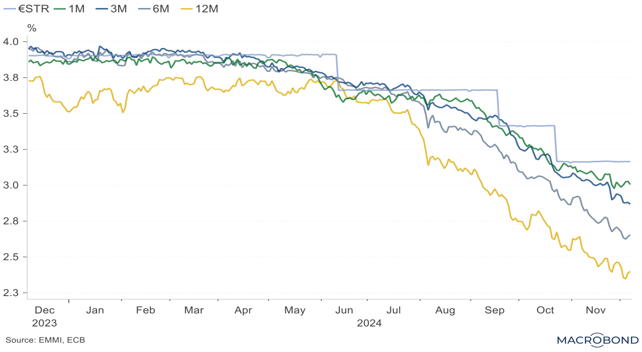
- The euro continued to recover slightly, closing the week at $1.0581 per euro, up by 0.2% week-on-week.

- In anticipation of this week's ECB meeting, the Euribor continued to slide slightly downwards, with 3M and 6M standing at 2.9% and 2.7%, respectively, at the end of the week.

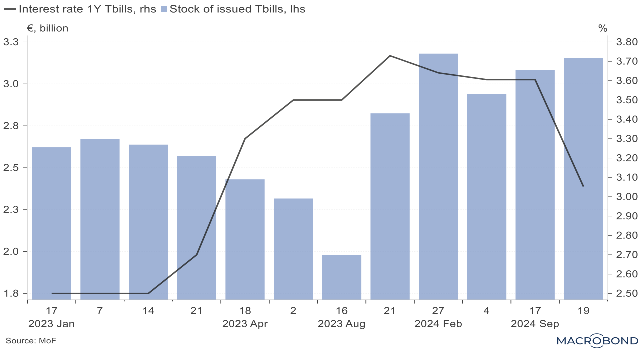
- Crobex fell by 0.6% w/w last week, to 3,144 points on Friday, with a negative performance of all the most important sectoral indices (CROBEXindustry -0.8% to 2,266, CROBEXnutris -6.7% to 837, CROBEXtourist -1.1% to 4,130). Crobis stayed at 97.9 points.

EUR/ USD

Euribor



T-bills



Crobex/Crobis

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