

Euro wrap-up

Overview

- Bunds broadly followed the path of USTs to make modest losses by the close despite some disappointing German and French business surveys.
- Gilts matched the pattern of the other major bond markets to make modest losses as a UK business survey pointed to firm retail sales in August.
- Friday brings consumer sentiment surveys from Germany and France and updated GDP figures from the UK and France. But all will be overshadowed by Yellen's speech at Jackson Hole.

Chris Scicluna
+44 20 7597 8326

Mantas Vanagas
+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.613	+0.014
OBL 0 10/21	-0.502	+0.012
DBR 0 08/26	-0.074	+0.016
UKT 1¼ 07/18	0.146	+0.009
UKT 1½ 01/21	0.224	+0.015
UKT 2 09/25	0.568	+0.015

*Change from close as at 4.30pm BST.
Source: Bloomberg

Euro area

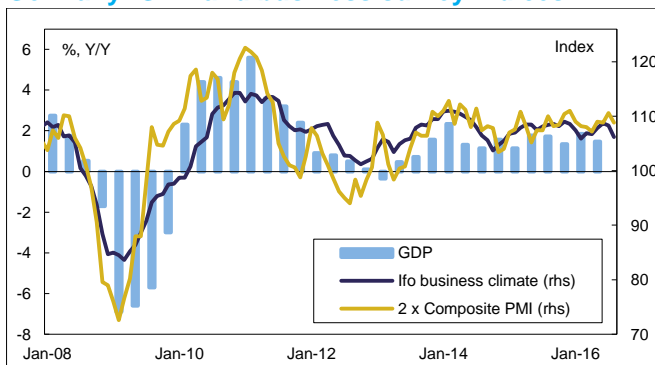
A disappointing German Ifo survey

Recent economic surveys have suggested that GDP growth in the euro area has been well maintained in the third quarter, something that should provide comfort to the ECB as it updates its forecasts ahead of its next monetary policy meeting which concludes on 8 September. However, today's publication of national business sentiment surveys from each of the euro area's two largest member states provided a reminder that recovery momentum remains no better than moderate and that there remain non-negligible risks to the downside. Most notably, the German Ifo survey's headline business climate index confounded expectations of a rise, falling more than 2pts, the most this year, to the lowest level since February. Deterioration was reported with respect to both the assessment of the current situation and expectations for the coming six months, with the respective indices falling close to their lows for the year recorded in the first quarter. To some extent, this tallied with the findings of the German flash PMIs, released earlier this week, which saw the headline composite index fall in August by the most since January. However, while the weakening in the PMIs was concentrated in services, the Ifo survey suggested that the mood had turned for the worse among manufacturers (particularly in the chemicals and electrical goods sub-sectors), retailers and wholesalers, for which the outlook indices all fell below the long-run average. The Ifo also suggested that other services providers were still sanguine while construction firms judged that the business climate has never been better. Despite the weakening in the Ifo headline index and flash PMIs, however, we maintain our forecast that German GDP growth in Q3 will be maintained around the 0.4%Q/Q rate of Q2.

French business sentiment softens too

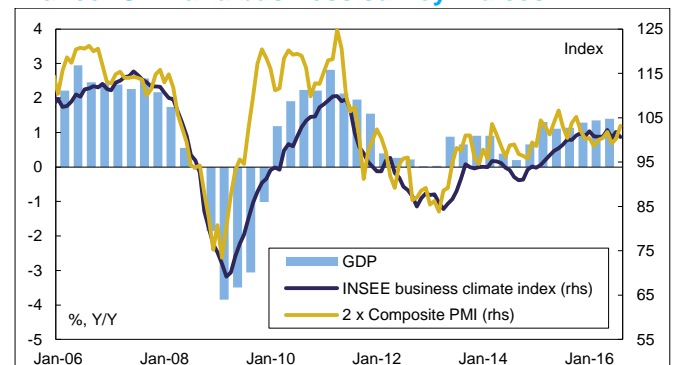
Today's disappointing data were not limited to Germany. In France, the INSEE sentiment survey also reported a modest deterioration in conditions in August, with the headline business climate indicator slipping back one point to 101. However, that should not be a cause for major consternation: the previous month's reading was at the top of the range of the economic recovery to-date and the latest figure remains in line with the norm of the past year and above the long-run average. Within the survey detail, retailers and manufacturers were less upbeat than of late, but still signalled that conditions were conducive for growth. In addition, the business climate in the services and construction sectors was considered to have changed little from July, with the former slightly above the long-run average. Admittedly, the survey did suggest that the near-term business outlook was uncertain. However, taken with other recent evidence – e.g. the rise in the French composite PMI to a ten-month high reported on Tuesday and the drop in jobseekers to a 17-month low reported yesterday evening – we anticipate a return to modest economic expansion in France in Q3 (with GDP growth about 0.2%Q/Q) following the flat second quarter.

Germany: GDP and business survey indices



Source: Thomson Reuters, Markit and Daiwa Capital Markets Europe Ltd.

France: GDP and business survey indices



Source: Thomson Reuters, Markit and Daiwa Capital Markets Europe Ltd.



Spanish Q2 growth more vigorous than previously thought

More happily, the second estimate of Spanish GDP in Q2 revealed that growth in the euro area's fourth largest member state was more vigorous than previously thought. Growth in the second quarter was revised up by 0.1ppt from the initial estimate to 0.8%Q/Q, the same rate as each of the previous three quarters and by some margin the strongest rate of all of the larger euro area member states. The expansion was again driven in large part by domestic demand, with household spending up 0.7%Q/Q, a touch below recent norms, and fixed investment up 1.3%Q/Q, the most in three quarters. Net trade provided some support too, as export growth was exceptionally strong, up more than 4%Q/Q, the most in almost two decades. In contrast, a reduction in government consumption subtracted from growth for the first time in six quarters. Although surveys suggest that Spanish GDP growth might well be a touch softer in the current quarter, it should still come in relatively close to the recent trend not least since tourist visitor and spending numbers this summer are trending significantly above their levels a year ago.

The day ahead in the euro area and US

Friday brings August consumer confidence survey results from Germany and France, with both headline indices expected to suggest that sentiment remains stable and close to the top of the range for the economic recovery. Also due are euro area bank lending figures for July, which are likely to show an ongoing gradual pickup in lending to firms and households. And revised French Q2 GDP figures, for which the preliminary readings suggested that growth came to a halt, will be published too.

Of course, all eyes on Friday will be on the US, where Fed Chair Janet Yellen will speak at Jackson Hole on the topic of the 'Federal Reserve's Monetary Policy Toolkit'. Not least given the Symposium's overarching theme of 'Designing Resilient Monetary Policy Frameworks for the Future', the main focus of her remarks seems likely to be on longer-term policy issues. And while she seems unlikely to be able to bypass completely the debate about current policy and might again make clear that the FOMC expects further monetary tightening to be required by year-end, given the range of views on the Committee and academic nature of the event, a clear signal of what to expect from next month's Fed meeting is likely to be lacking.

Data-wise in the US, Friday will also bring revised data for Q2 GDP and its components, expected to nudge down slightly the estimate of economic growth from the initial estimate of 1.2%Q/Q annualised. Also due will be the advance goods trade report for July, wholesale inventory data for the same month and the final University of Michigan consumer confidence survey results for August.

UK

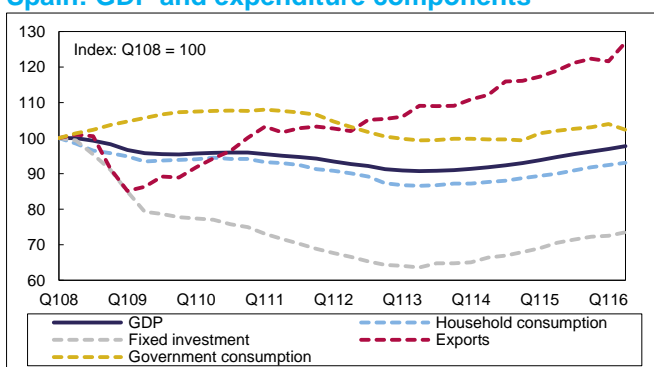
CBI retail sector survey reports a sales recovery in August

The CBI's Distributive Trades Survey in July had pointed to a sharp fall in High Street spending in the immediate aftermath of the Brexit vote. The August survey, released today, however, suggested a sharp rebound. The survey reported that retail sales increased in the current month, with the relevant index rising to a five-month high, having fallen to the lowest level since the start of 2012 in July. It appears that sales were supported by continuing summer discounting, with average prices down in August. But even if seasonal variation is adjusted for, the pace of sales growth was the highest since January. Overall, like the official retail sales figures for July, these data suggest that the impact of the referendum result on household spending may not have been as bad as initially feared.

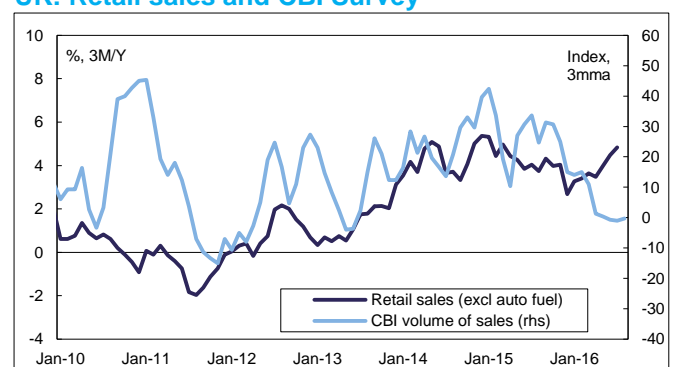
The day ahead in the UK

The end of the week brings the second release of Q2 GDP, which is set to confirm that growth picked up last quarter to 0.6%Q/Q from 0.4%Q/Q previously. The expenditure breakdown will probably show that household spending was the main driver, increasing at a similar pace to the 0.8%Q/Q reported in Q1. Meanwhile, net trade is unlikely to have provided any support, and actually might have subtracted from growth.






Spain: GDP and expenditure components











UK: Retail sales and CBI Survey



European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Ifo business climate index	Aug	106.2	108.5	108.3	-
	 Ifo current assessment balance (expectations)	Aug	112.8 (100.1)	114.9 (102.4)	114.7 (102.2)	114.8 (102.1)
France	 Business confidence indicator (production outlook)	Aug	101 (0)	102 (-)	102 (3)	- (2)
Spain	 GDP – second release Q/Q% (Y/Y%)	Q2	0.8 (3.2)	<u>0.7 (3.2)</u>	0.8 (3.4)	-
UK	 CBI Distributive Trades survey, retail sales	Aug	9	0	-14	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases						
Economic data						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
EMU	 09:00	M3 money supply Y/Y%	Jul	5.0	5.0	
Germany	 07:00	GfK consumer confidence survey	Sep	10.0	10.0	
France	 07:45	Consumer confidence survey	Aug	96	96	
	 07:45	GDP – second release Q/Q% (Y/Y%)	Q2	<u>0.0 (1.4)</u>	0.7 (1.3)	
Spain	 08:00	Retail sales Y/Y%	Jul	4.3	5.6	
UK	 09:30	GDP – second release Q/Q% (Y/Y%)	Q2	<u>0.6 (2.2)</u>	0.4 (2.0)	
	 09:30	Index of services M/M% (3M/3M%)	Jun	0.1 (0.4)	-0.1 (0.3)	
Auctions and events						
Country	BST	Auction / Event				
UK	 15.50	BoE's Shafik scheduled to speak at Jackson Hole conference				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<http://www.uk.daiwacm.com/research-zone/research-blog>



Follow us
[@DaiwaEurope](https://twitter.com/DaiwaEurope)

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.