

# Euro wrap-up

## Overview

- Bunds followed Treasuries and closed slightly higher despite improvements in German and French consumer confidence.
- Gilts also made modest gains as revised Q2 GDP data confirmed that the UK economic expansion accelerated ahead of the referendum.
- Sentiment surveys will continue to dominate the European data flow in the coming week, while the flash estimate of euro area CPI for August is also due.

## Economic Research Team

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.619	-0.003
OBL 0 10/21	-0.511	-0.011
DBR 0 08/26	-0.090	-0.020
UKT 1¼ 07/18	0.145	-0.006
UKT 1½ 01/21	0.218	-0.007
UKT 2 09/25	0.539	-0.034

\*Change from close as at 4.30pm BST.

Source: Bloomberg

## Euro area

### German consumers more upbeat

Economic sentiment surveys were again the principal data focus in the euro area today. And after yesterday's disappointing national business surveys from Germany and France, consumer confidence surveys from the same countries provided some reassurance about the resilience of the euro area's economic recovery. Most notably, after yesterday's German Ifo business survey saw the headline index drop by the most this year to the lowest level since February, the German GfK consumer confidence survey was undeniably upbeat, surpassing expectations of a flat reading with a 0.2pt rise in the headline index to 10.2, matching the series high reached fifteen months ago. And with the August detail showing improvement in the key income expectations and willingness-to-buy components, consumer spending seems likely in Q3 to resume its role as the principal driver of German GDP growth following a softer second quarter.

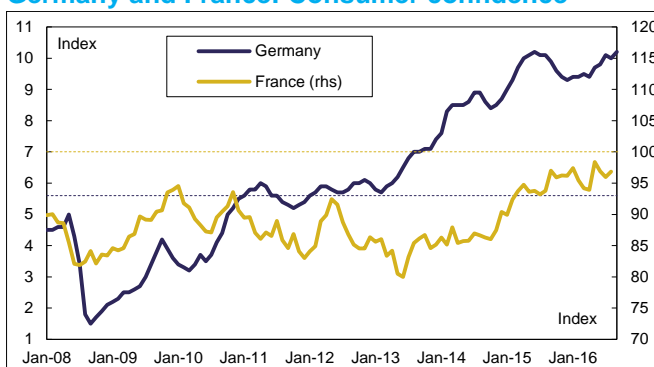
### French consumer confidence improves too

The latest French consumer confidence survey also revealed an unexpected improvement in the latest month, with the headline indicator reversing the previous month's drop to rise 1pt in August to 97, just shy of May's near-nine-year high albeit still below the long-run average. Within the detail, the survey suggested that French households felt better about their recent personal financial situation, and their future expectations in that respect were stable. And while the survey measure of households' willingness to make major purchases fell slightly, that followed a rise the previous month and it remained above the long-run average. So, having ground to a halt in Q2, French consumer spending seems likely to have returned to moderate expansion in the current quarter. And while updated figures confirmed that headline economic growth was zero in Q2, the expenditure breakdown showed that private inventories subtracted more than previously thought – 0.8ppt, the most since Q109 – which suggests that stock-building might provide a boost to GDP over coming quarters too.

### Lending continues to recover gradually

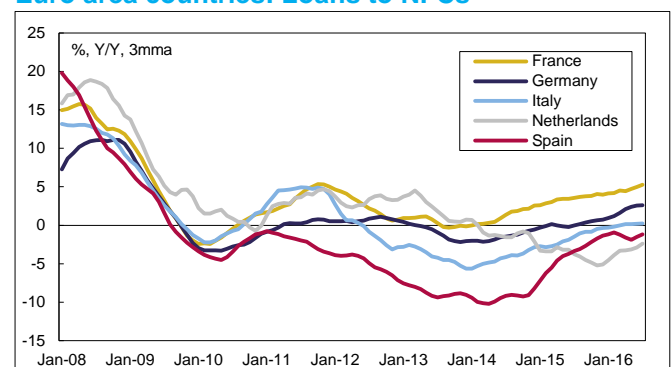
The ECB might also have been encouraged by the findings of its latest bank lending figures, which signaled a further gradual improvement in private sector credit growth at the start of Q3. Despite ongoing uncertainty about the outcome of the UK's decision to leave the EU, with firms having assessed conditions to have remained broadly favourable in July and against the backdrop of record low borrowing costs, net new lending to non-financial corporations (NFCs) in the euro area rose on an adjusted basis for the fourth consecutive month and by almost €12bn, to leave the annual rate of growth in the outstanding stock of loans up 1.9%Y/Y, the highest since October 2011. Similarly, thanks to an increase in loans for house purchases, net

### Germany and France: Consumer confidence\*



\*Dashed lines represent long-run average. Source: Thomson Reuters, GfK, INSEE and Daiwa Capital Markets Europe Ltd.

### Euro area countries: Loans to NFCs



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

new lending to households increased for the twenty-fourth consecutive month to leave year-on-year growth in the stock of loans unchanged at 1.8%. Perhaps inevitably, credit growth to households and firms alike continued to be driven by the two largest member states. For example, lending to firms in Germany was up almost 3%Y/Y, the fastest annual growth since 2009, while lending to French corporates continued to rise by more than 5%Y/Y, the highest rate since 2011. Meanwhile, the flow of net new lending turned negative in Italy, although this still left the outstanding stock of loans to NFCs in that country broadly flat compared with a year earlier, while the annual rate of decline in new corporate lending in Spain continued to moderate to -0.8%Y/Y, an improvement of almost 2ppts compared with a year earlier.

## The week ahead in the euro area and US

The coming week in the euro area will be dominated by further economic sentiment surveys and the first estimates of inflation in August. In particular, Monday brings the latest Italian business and consumer confidence surveys, while the Commission's August economic sentiment indices – which tend to provide the most reliable guide to economic growth in the euro area – are due the following day. Also due Tuesday are the August flash inflation figures for Germany and Spain with the equivalent data for the euro area, France and Italy due the following day. The final manufacturing PMIs for August – for which the flash euro area headline index declined to a three-month low, while the output index rose to an eight-month high – are due Thursday. Other data due in the coming week include euro area unemployment figures for July on Wednesday and revised Italian GDP data for Q2 – currently estimated to have been flat from Q1 – due on Friday. Meanwhile, in the bond markets, Italy is scheduled to sell bonds on Tuesday while Germany will sell 2Y Bunds on Wednesday and France is due to sell a range of bonds on Thursday.

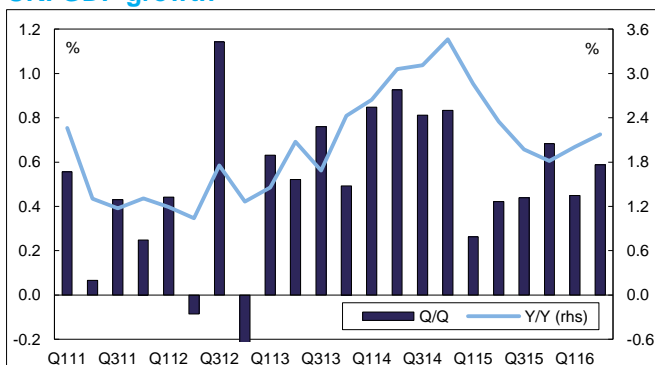
In the US, a busy week for economic data with numerous top-tier releases kicks off with July's personal income and spending numbers and the associated PCE deflators on Monday. While personal spending is expected to have remained relatively firm, the key core PCE deflator is expected to drop 0.1ppt to 1.5%Y/Y. Tuesday brings the Case-Shiller house price indices for June along with the Conference Board's consumer confidence survey for August. Wednesday's most watched release is likely to be the ADP employment report for August while, among other new releases, Thursday will see the publication of the manufacturing ISM survey for the same month. But all eyes, of course, will be on the August labour market report due on Friday. Following two months above 250k, nonfarm payrolls are expected to have risen about 175k, a touch below the average for the year to-date. In addition, the unemployment rate is expected to decline 0.1ppt to 4.8%, but average hourly earnings growth is expected to moderate by 0.1ppt to 2.5%Y/Y, the average so far in 2016.

## UK

### GDP figures confirmed that the UK economy was in a good shape before the referendum

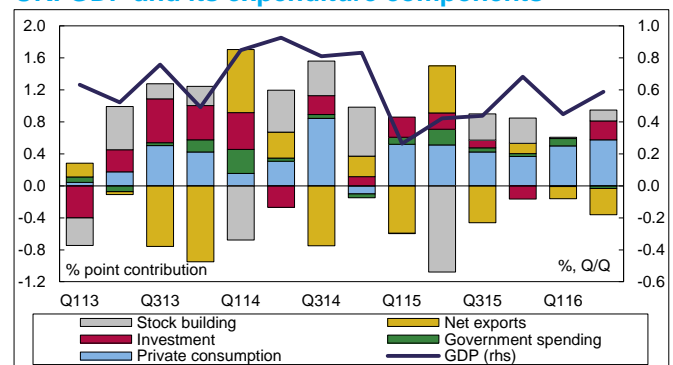
With other data having been broadly consistent with the preliminary Q2 GDP data, today's release of the second GDP estimate seemed bound to confirm previous growth estimates. And indeed the figures showed that GDP increased at an unrevised pace of 0.6%Q/Q, having risen by 0.4%Q/Q in Q1, leaving output 2.2% higher than a year earlier. The expenditure breakdown was of more interest. In line with expectations, the figures showed that private consumption, which increased by 0.9%Q/Q, the highest pace in almost two years, was the main driver of growth, while net trade subtracted 0.3ppts. Among the other details, investment data brought an upward surprise showing a 1.4%Q/Q increase following two quarters of negative growth. Business investment was up by only 0.5%Q/Q, so the increase was mainly due to higher government investment, which was mainly concentrated in the construction sector. In contrast to those investment figures, public consumption fell by 0.2%Q/Q. Overall, the figures suggest that the economy was resilient to the increased uncertainty ahead of the Brexit referendum.

#### UK: GDP growth



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

#### UK: GDP and its expenditure components










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

## The week ahead in the UK

This week's economic data suggested that post-referendum economic conditions in the UK were not as bad as previously thought, and data releases in the coming week are expected to deliver a similar message. Most notably, the manufacturing and construction PMIs, due at the end of the week, are expected to show a recovery in sentiment in August following the sharp drop in July. However, both indices are likely to remain below the neutral level of 50 signaling that contraction continued in those sectors. Meanwhile, the GfK consumer confidence survey on Wednesday is set to follow a similar pattern – the headline indicator is expected to increase from the thirty-one month low registered in July to a level that remains significantly below the pre-referendum readings. And the BoE lending figures, due on Tuesday, are expected to be broadly consistent with this week's release of the BBA data, which showed that credit flows remained little changed in July. Finally, among other new economic data worth keeping an eye on are the Nationwide house price index and the Lloyds Business Barometer.




















**The next edition of Euro wrap-up will be published on 30 August 2016.**

## European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
EMU	 M3 money supply Y/Y%	Jul	<b>4.8</b>	5.0	5.0	-	
Germany	 GfK consumer confidence survey	Sep	<b>10.2</b>	10.0	10.0	-	
France	 Consumer confidence survey	Aug	<b>97</b>	96	96	-	
	 GDP – second release Q/Q% (Y/Y%)	Q2	<b>0.0 (1.4)</b>	<u>0.0 (1.4)</u>	0.7 (1.3)	-	
Spain	 Retail sales Y/Y%	Jul	<b>4.9</b>	4.3	5.6	<b>5.7</b>	
UK	 GDP – second release Q/Q% (Y/Y%)	Q2	<b>0.6 (2.2)</b>	<u>0.6 (2.2)</u>	0.4 (2.0)	-	
	 Index of services M/M% (3M/3M%)	Jun	<b>0.2 (0.5)</b>	0.1 (0.4)	-0.1 (0.3)	<b>0.0 (-)</b>	
Auctions							
Country	Auction						
- Nothing to report -							















Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's data calendar

Key data releases					
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 29 August 2016</b>					
EMU		14:45 ECB QE net purchases €bn	Weekly	<u>12.6</u>	11.9
Italy		09:00 Consumer confidence indicator	Aug	110.4	111.9
		09:00 Manufacturing (economic) confidence	Aug	102.5 (-)	103.1 (103.3)
<b>Tuesday 30 August 2016</b>					
EMU		10:00 Economic sentiment indicator	Aug	104.1	104.6
		10:00 Services (industrial) sentiment	Aug	11.1 (-2.7)	11.1 (-2.4)
		10:00 Final consumer confidence	Aug	-8.5	-7.9
Germany		13:00 Preliminary EU-harmonised CPI Y/Y%	Aug	0.5	0.4
Italy		09:00 Retail sales M/M% (Y/Y%)	Jun	-0.1 (-)	0.3 (-1.3)
Spain		08:00 Preliminary EU-harmonised CPI Y/Y%	Aug	-0.3	-0.7
UK		09:30 Mortgage approvals '000s	Jul	62.0	64.8
		09:30 Net consumer credit (net lending secured on dwellings) £bn	Jul	1.7 (3.1)	1.8 (3.3)
<b>Wednesday 31 August 2016</b>					
EMU		10:00 Unemployment rate %	Jul	10.0	10.1
		10:00 Flash CPI estimate Y/Y%	Aug	0.3	0.2
		10:00 Flash core CPI estimate Y/Y%	Aug	0.9	0.9
Germany		07:00 Retail sales M/M% (Y/Y%)	Jul	0.5 (0.3)	-0.1 (2.7)
		08:55 Unemployment change '000s (rate %)	Jul	-4 (6.1)	- (6.1)
France		07:45 Preliminary EU-harmonised CPI Y/Y%	Aug	0.4	0.4
		07:45 Consumer spending M/M% (Y/Y%)	Jul	0.3 (1.1)	-0.8 (0.6)
Italy		09:00 Unemployment rate %	Jul	11.6	11.6
		10:00 Preliminary EU-harmonised CPI Y/Y%	Aug	-0.1	-0.2
Spain		09:00 Current account balance €bn	Jun	-	2.8
UK		00:01 Lloyds business barometer	Aug	-	29
		00:05 GfK consumer confidence survey	Aug	-9	-12
		07:00 Nationwide house price index M/M% (Y/Y%)*	Aug	-0.2 (4.8)	0.5 (5.2)
<b>Thursday 01 September 2016</b>					
EMU		09:00 Final manufacturing PMI	Aug	51.8	52.0
Germany		08:55 Final manufacturing PMI	Aug	53.6	53.8
France		08:50 Final manufacturing PMI	Aug	48.5	48.6
Italy		08:45 Manufacturing PMI	Aug	51.2	51.2
Spain		08:15 Manufacturing PMI	Aug	50.8	51.0
UK		09:30 Manufacturing PMI	Aug	49.0	48.2
<b>Friday 02 September 2016</b>					
Italy		09:00 GDP – second release Q/Q% (Y/Y%)	Q2	0.0 (0.7)	0.3 (1.0)
Spain		08:00 Unemployment M/M '000s	Aug	3.4	-84.0
UK		09:30 Construction PMI	Aug	46.5	45.9

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Coming week's events/auctions calendar

Key events & auctions			
Country		BST	Event / Auction
<b>Monday 29 August 2016</b>			
- Nothing scheduled -			
<b>Tuesday 30 August 2016</b>			
Italy		10:00	Auction: To sell up to €3bn of 0.45% 2021 bonds (01-Jun-2021)
		10:00	Auction: To sell up to €1.75bn of 2023 floating-rate bonds (15-Jul-2023)
		10:00	Auction: To sell up to €3bn of 1.25% 2026 bonds (01-Dec-2026)
UK		10:40	BoE announces Indexed long-term repo operations results
<b>Wednesday 31 August 2016</b>			
EMU		09.15	ECB's Praet scheduled to speak in China
Germany		11:30	Auction: To sell €4bn of 0% 2018 bonds (14-Sept-2018)
<b>Thursday 01 September 2016</b>			
France		09:50	Auction: To sell 0.25% 2026 bonds (25-Nov-2026)
		09:50	Auction: To sell 1.25% 2036 bonds (25-May -2036)
		13:50	Auction: To sell 3.25% 2045 bonds (25-May-2045)
Spain		09:30	Auction: To sell 0.25% 2019 bonds (31-Jan -2019)
		09:30	Auction: To sell 1.3% 2026 bonds (31-Oct-2026)
		09:30	Auction: To sell 2.9% 2046 bonds (31-Oct-2046)
		09:30	Auction: To sell 1% 2030 index-linked bonds (30-Nov-2030)
UK		10:30	Auction: To sell £2.75bn of 0.5% 2022 bonds (22-Jul-2022)
<b>Friday 02 September 2016</b>			
- Nothing scheduled -			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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