

# Euro wrap-up

## Overview

- As the bond markets digested yesterday's Fed announcement Bunds made gains while euro area economic surveys suggested ongoing expansion at the end of Q3.
- Gilts also made substantive gains as the BoE's Financial Policy Committee signalled its continuing concern about the impact of Brexit.
- Friday brings the euro area flash PMIs for September.

## Economic research team

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### Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.667	-0.010
OBL 0 10/21	-0.551	-0.047
DBR 0 08/26	-0.092	-0.095
UKT 1¼ 07/18	0.090	-0.018
UKT 3¼ 09/21	0.203	-0.042
UKT 1½ 07/26	0.719	-0.087

\*Change from close as at 4.30pm BST.

Source: Bloomberg

## Euro area

### September sentiment surveys stable

With Draghi's remarks to the ESRB conference in Frankfurt this afternoon centred primarily on banking sector issues, today's economics focus in the euro area was on some of the early sentiment survey results for September. Most notably perhaps, in line with expectations but reassuring nonetheless, the European Commission's flash euro area consumer confidence index rose for the first time in four months, to -8.2, very close to the average level for the year to-date. So, over the near term, moderate growth in consumer spending should continue to act as the principal driver of euro area economic growth. At the country level, meanwhile, the September INSEE business sentiment survey added to evidence that French economic growth has returned to positive territory in Q3 after a flat second quarter. In particular, the survey's headline business climate index reversed the slight dip the previous month to rise back to 102, the top of the admittedly narrow range seen over the past twelve months and 2pts above the long-run average. Within the detail, the survey suggested modest improvement in confidence in manufacturing and services, the latter to a five-year high, and stable sentiment among construction firms. But wholesalers and retailers were more downbeat. The survey broadly tallies with our current forecast of French GDP growth of about ¼%Q/Q in Q3.

### The day ahead in the euro area and US

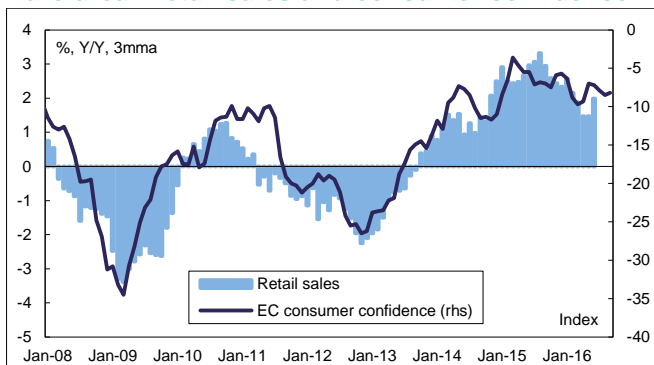
Friday maintains the flow of September survey results with the flash euro area PMIs. The euro area composite PMI is expected to remain close to the nineteen-month low of 52.9 recorded in August. Likewise, in the US the preliminary Markit manufacturing PMI is the sole release of note.

## UK

### Survey suggests continued manufacturing sector stability

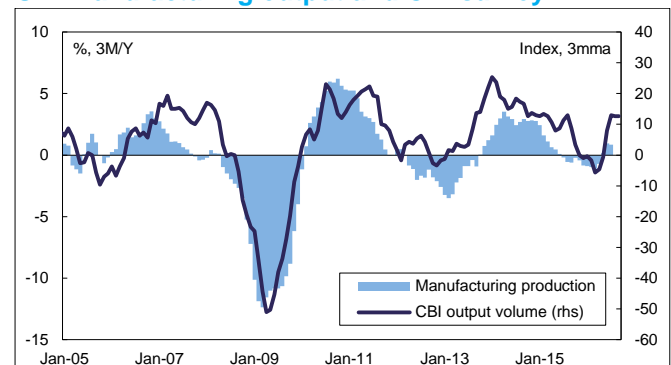
Today's CBI Industrial Trends survey suggested that manufacturing output growth was solid in September, with the relevant indicator moving sideways, at 11, well above its twelve-month average. The total order index was strong too, while the indicator for the export order book remained elevated, albeit lower than in the previous month, continuing to suggest that a weaker exchange rate is supporting exports. Against this backdrop, manufacturers now expect output growth to accelerate over the coming months. This seems plausible in the short run, given what has happened to sterling. But with manufacturing production up only 0.8%Y/Y in July, even the sort of acceleration suggested by this survey would not be sufficient to meaningfully offset the post-referendum slowdown seen in other parts of the economy.

### Euro area: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### UK: Manufacturing output and CBI survey



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.







## Financial Policy Committee remains concerned about Brexit impact

Having taken swift action in the aftermath of the EU referendum result by cutting the countercyclical capital buffer rate to 0%, the Financial Policy Committee today published the statement from its meeting earlier this week. This revealed that the FPC continues to assess the outlook for financial stability in the UK as challenging, largely thanks to the continuing fallout from the referendum. It believes that the risks of a sharp adjustment in the commercial real estate market are crystallising, with prices and transactions at their lowest level since 2009. Meanwhile, it remains concerned that Brexit will result in a fall in appetite to invest in the UK, threatening to disrupt the capital flows that the UK requires to finance its very large current account deficit. And with growth slowing, the Committee is concerned that this will see some households struggle to service their debts as a result of a weaker employment market and slower income growth. For the Bank of England, therefore, the risks from the referendum result and the move towards Brexit remain both large and long-lasting.

## The day ahead in the UK

It will be a quiet end of the week with no major economic data releases due.








## European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Preliminary consumer confidence	Sep	<b>-8.2</b>	-8.2	-8.5	-
France	 Business confidence indicator (production outlook)	Sep	<b>102 (7)</b>	101 (0)	101 (0)	<b>- (1)</b>
Spain	 Trade balance €bn	Jul	<b>-0.6</b>	-	-1.4	-
UK	 CBI Industrial Trends survey, total orders	Sep	<b>-5</b>	-5	-5	-
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	Preliminary manufacturing PMI	Sep	51.5	51.7
		09:00	Preliminary services PMI (preliminary composite PMI)	Sep	52.8 (52.8)	52.8 (52.9)
Germany		08:30	Preliminary manufacturing PMI	Sep	53.1	53.6
		08:30	Preliminary services PMI (preliminary composite PMI)	Sep	52.1 (53.6)	51.7 (53.3)
France		07:45	– second release Q/Q% (Y/Y%)	Q2	<u>0.0 (1.4)</u>	0.7 (1.4)
		08:00	Preliminary manufacturing PMI	Sep	48.5	48.3
		08:00	Preliminary services PMI (preliminary composite PMI)	Sep	52.0 (51.8)	52.3 (51.9)

### Auctions and events

Country	BST	Auction / Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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